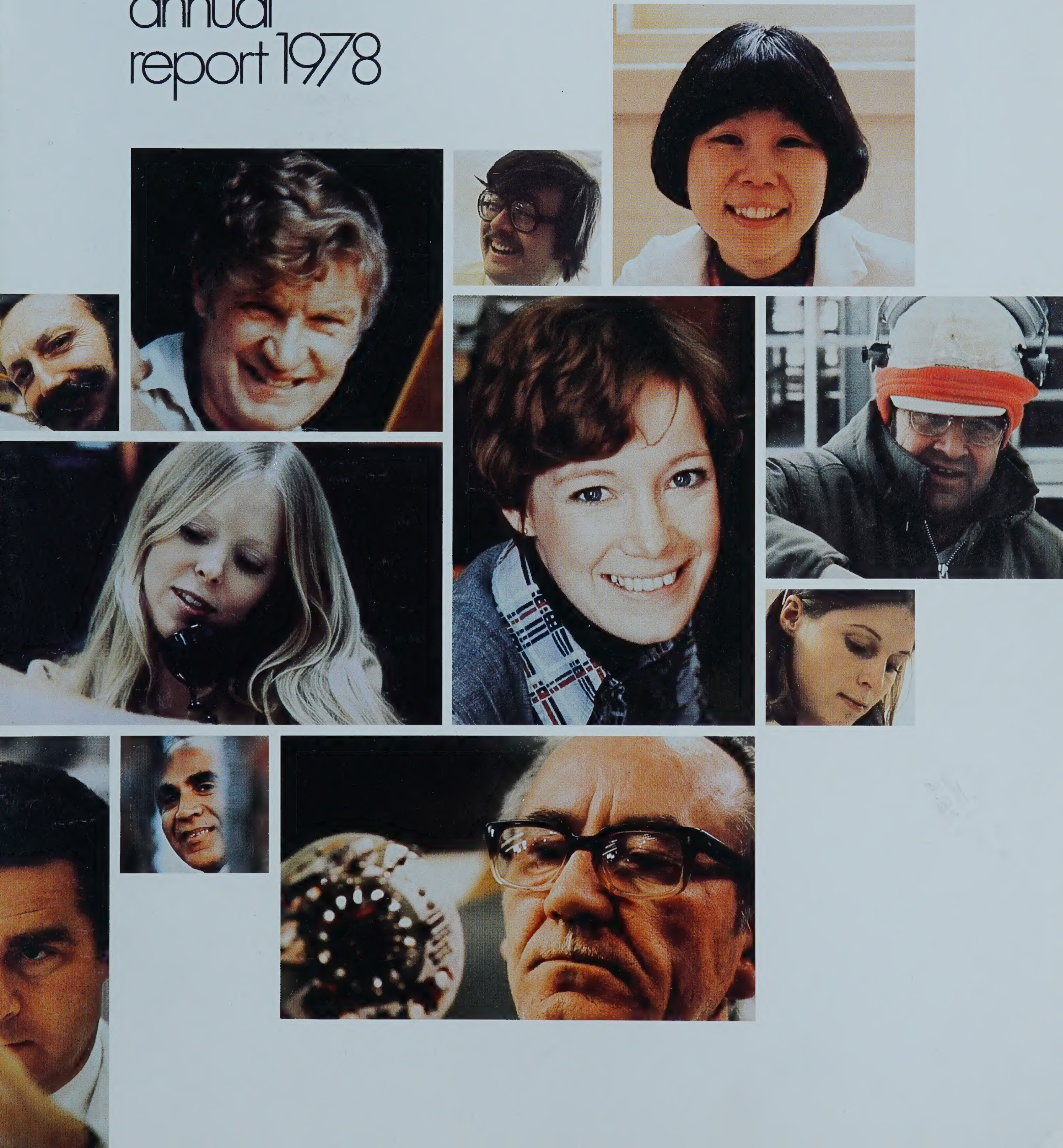
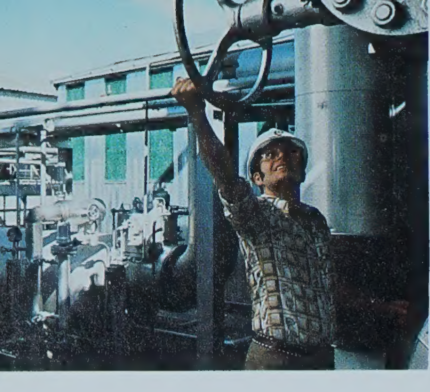
canada development corporation annual report 1978

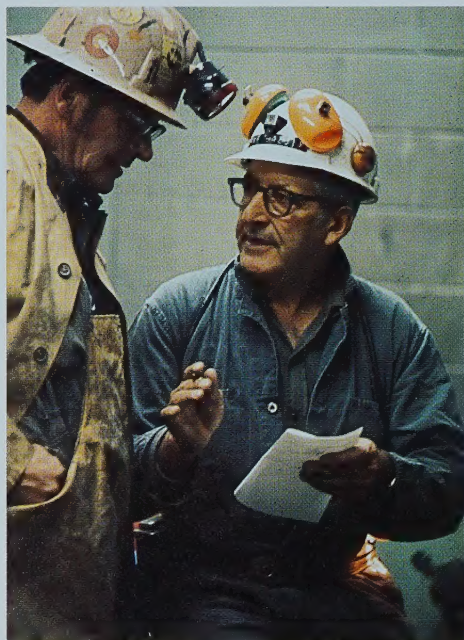


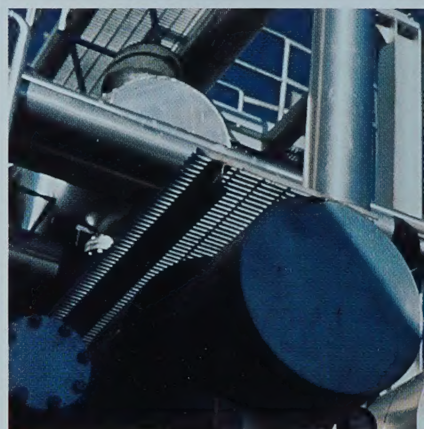



Our cover

This year's cover shows a few of the 24,000 people who produced CDC's goods and services in 1978.








Contents

HEAD OFFICE: 2272 Granville Square, 200 Granville Street, Vancouver, British Columbia, V6C 1S4

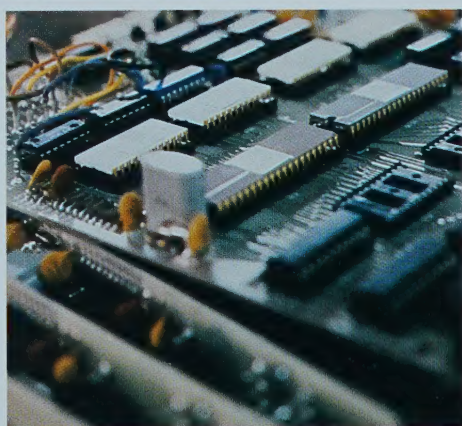
Pour obtenir l'édition française du présent rapport, on est prié d'écrire au Secrétaire, Corporation de développement du Canada, Suite 2272, 200 rue Granville, Vancouver, Colombie-Britannique, V6C 1S4.

Canada Development Corporation

CDC is a unique mix of public and private investment, which provides an opportunity for Canadians to employ their savings in active development of healthy Canadian enterprises which sell in both domestic and foreign markets. Although created and initially funded by the Federal Government, CDC was specifically designed to operate in the private sector, from which it has raised all its funds since 1974. The Corporation's objectives are to develop and maintain strong Canadian-controlled and -managed corporations in the private sector, to widen the investment opportunities open to Canadians and to operate profitably and in the best interests of all the shareholders. To reach its objectives, CDC generally acquires effective control of the companies in which it invests, and builds up strong, entrepreneurial, managerial, technical and research talents in those companies so that they attain their maximum profitability and growth.





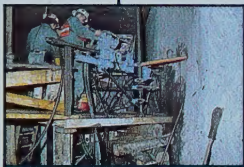

Corporate Structure

CANADA DEVELOPMENT CORPORATION

PETRO-CHEMICALS

Polysar Limited
100% CDC-owned
Total Assets
$766.1 million
A world force in the manufacture and sale of synthetic rubber, latex, chemicals and plastics, with plants or offices in 16 countries.

Petrosar Limited
60% CDC-owned
Total Assets
$819.8 million
North America's first integrated refinery-petrochemical plant, producing fuels and competitively-priced feedstocks for chemicals and plastics plants in Canada and the U.S.



MINING

Texasgulf Inc.
30.7% CDC-owned
Total Assets
US$1,513.8 million
A major diversified mining and natural resource developer which is a leading producer of base metals, fertilizers and chemicals, and has growing activities in oil and gas.

OIL & GAS

CDC Oil & Gas Limited
100% CDC-owned
Total Assets
$180.2 million
A rapidly expanding energy exploration and production company which is extending its aggressive search for new sources of energy for Canadians.

LIFE SCIENCES

CDC Life Sciences Inc.
100% CDC-owned
Total Assets
$152.8 million
Enhancing Canada's presence in medical research through a group of innovative companies engaged in the discovery, development and marketing of pharmaceuticals and biologicals, and life sciences contracting.

ELECTRONICS

CDC Data Systems Limited
100% CDC-owned
Total Assets
$55.5 million
CDC's holding company in electronics. The company currently holds CDC's interest in AES Data.

AES Data Ltd.
54% CDC-owned
Total Assets
$69.7 million
Manufacturing and worldwide marketing of high-technology word processing systems and related products in the rapidly growing office products sector of the electronics industry.

Ventek Limited
57% CDC-owned
Total Assets
$9.5 million
A distributor of "Datapoint" dispersed data processing equipment.

VENTURE AND EXPANSION CAPITAL

Providers of equity financing to small and medium-size businesses at the conceptual or development stage.

CanWest Capital Corporation
35% CDC-owned
Total Assets $55.5 million

Innocan Investments Ltd.
37% CDC-owned
Total Assets $55.9 million

Ventures West Capital Ltd.
49% CDC-owned
Total Assets $4.5 million

Venturetek International Limited
32% CDC-owned
Total Assets $75.0 million

Highlights

	1978	1977
	(millions of dollars)	
Total revenue	**$ 1,305.9**	$ 724.1
Net income	**36.4**	23.8
Earnings per common share	**62.0¢**	21.0¢
Cash flow	**133.7**	90.3
Working capital	**412.6**	69.4
Total assets	**2,537.8**	2,066.1
Shareholders' equity	**730.9**	713.4
Return on common equity	**4.0%**	1.4%
Research & development expenditures	**26.6**	24.0

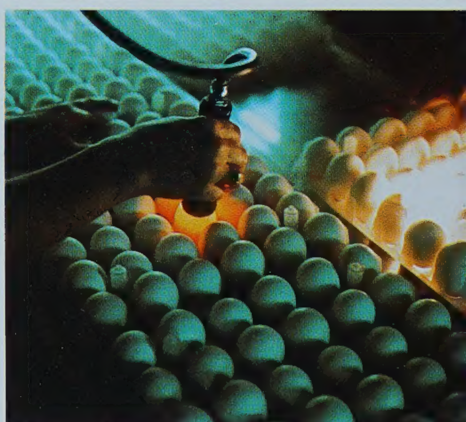
- **Total revenue increases 80%; net income 53%; cash flow 48% (Page 8)**
- **Polysar contribution to CDC more than doubles (Page 8)**
- **Assets now over $2.5 billion (Page 9)**
- **Petrosar achieves commercial production (Page 21)**
- **Significant word processing acquisitions made by CDC (Page 29)**
- **CDC Oil & Gas exploration expenditures and reserves up sharply (Page 35)**
- **Turn-around year for life sciences companies (Page 36)**



SIGNODE





Report of Directors

To our Shareholders:

Your Company's performance exceeded our projections in 1978. In addition to surpassing our short-term earnings plan, we are now also ahead of schedule with respect to our ambitious long-term profit, diversification and expansion objectives.

Our progress during 1978 is evident in these figures: earnings rose by more than 50% to $36.4 million from $23.8 million in 1977, assets increased by 23% to $2.5 billion; research and development expenditures exceeded $26 million and the value of exports from all CDC group companies grew to $190 million.

The growth in profits came largely from Polysar, whose contributions to CDC more than doubled, our life sciences group, in which earnings approached a satisfactory level for the first time since the group's formation, and Texasgulf, which contributed 23% more to us despite soft metal prices. The new word processing division also returned a profit in its first months under CDC's direct ownership.

Petrosar, as we predicted during planning of the project, incurred losses in its initial production year. Losses were somewhat heavier than had been anticipated, the result of weak fuel markets. However, this world-scale petrochemical refinery was approached as a long-term development project and we have lost none of our belief in its potential.

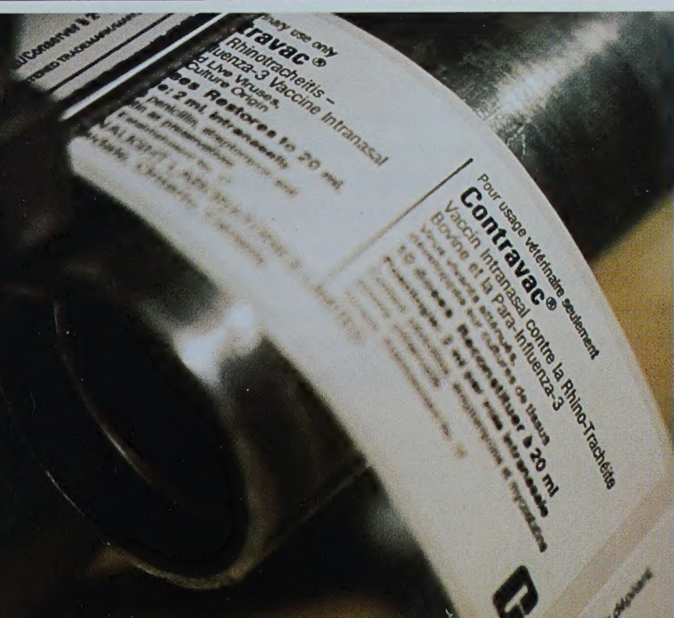
As we expected, 1978 was the year in which some of our earlier investments began to bear fruit. Indeed, CDC's consolidated earnings on assets which we operated in both 1977 and 1978 more than doubled last year over the preceding twelve months. We are confident that the momentum gained during the last twelve months will lead to even better results in the months and years ahead.

Financing

To allow us to pursue an active acquisition program, we extended the term of our $100 million in Class A Preferred Shares and raised substantial funds in foreign markets at very reasonable rates. Working capital at the end of 1978 stood at $413 million while cash and short-term investments were $289 million with unconsolidated cash and short-term investments at $134 million. Consequently, a public share issue was not needed. The actual timing of the next public issue will depend on the pace of our acquisition program and conditions in financial markets.

Acquisitions and Expansion

Your Company's mandate calls for us to build strong Canadian-controlled and managed corporations. Thus, during 1978, we pursued an ambitious program of internal expansion and acquisition involving direct CDC investment and indirect activity through our group of



operating and venture capital companies.

In July, CDC — through its newly-formed company, CDC Data Systems Limited — made a major direct investment in the dynamic word processing industry by purchasing AES Data Ltd. of Montreal, a promising, well-organized manufacturer of word processing systems. At the same time, the smaller Wordplex Corporation of California was purchased and merged into AES. Sales of the combined company more than doubled in 1978, maintaining a growth pattern established in previous years.

Other CDC companies continued their investment programs, spending a total of $195 million, less than in 1977 because the virtually-completed Petrosar project did not require substantial capital outlays in 1978. Work on Texasgulf's smelter and refinery at Timmins as well as the related mine and concentrator expansion proceeded according to plan. CDC Oil & Gas spent $33 million on exploration and development, including a small initial venture in uranium. CanWest Capital made two important acquisitions: Monarch Life Assurance Company and Na-Churs International Limited, a fertilizer company. Innocan Investments acquired Cancoat Papers Ltd., a manufacturer of paper for photocopy machines. And Ventures West Capital obtained a controlling interest in International Mobile Data Inc., a producer of advanced mobile computer terminals.

Direction of Growth

CDC was conceived and operates as an entrepreneurial organization. Our investment strategy reflects this orientation, emphasizing longer-term large-scale projects because these offer an opportunity for CDC to fill a gap in the range of entrepreneurial services available to Canadians. Concentration on this type of activity is also appropriate because the ultimate return on such investments tends to be higher than for those which are less complex and shorter-term.

Because of our involvement in long-term projects, we will always be operating a mixture of young, developing firms and more established but still rapidly-growing companies. The newer companies normally require infusions of funds but, as they mature, they produce significant profits. Petrosar, for example, has not yet reached profitability, although it has begun to generate an operating cash flow; its contribution to our earnings, and thus to our other expansion programs, still lies ahead.

The industries we are now considering for future investments are characterized by extensive processing of Canadian resources, the promise of appreciable growth in both domestic and foreign markets and the application of advanced technology and Canadian expertise.

AES Data: An Example of CDC's Entrepreneurial Spirit

Your Company's word processing acquisitions serve as good examples of CDC's entrepreneurial investments in action, showing how benefits have flowed back to the Corporation and to Canada as a result of our willingness to enter world markets.

AES and Wordplex, which was acquired at the same time as AES, were drawn to our attention by our affiliated venture capital companies who had sponsored and nurtured the firms through their early stages. We were attracted to AES because it embodied Canadian ingenuity and entrepreneurship; Wordplex was appealing because it complemented the AES operation.

AES entered this rapidly growing field fully aware of intense international competition but willing to bank on the ability of Canadian engineers, marketing experts and managers to compete with the world's best. These skills, together with a great deal of hard work, paid off.

The challenge of rapid growth, however, was more than an emerging firm like AES could handle on its own but presented the kind of opportunity which CDC was organized to seize. CDC's resources will ensure that AES products continue to meet international standards of excellence, that domestic and foreign markets will be fully developed, that expanded research and development will be possible and that the necessary depth of managerial talent will be available to keep the firm a dynamic force in its industry. The marriage of CDC and AES shows how your Company can participate in Canada's most exciting entrepreneurial activities.

Sales of AES products have grown steadily in North America and Europe. In 1978, AES' exports contributed $30.1 million to Canada's balance of payments. Four plants in Montreal, a new manufacturing and research facility near Toronto and sales and service offices throughout Canada employ more than a thousand Canadians.

AES has succeeded outside Canada because the company is prepared to provide the necessary sales and support facilities in foreign markets. American customers, for example, demand an American-based service network; AES provides that service through its Atlanta-based distributor (and 36% owner), Lanier Business Products. Lanier also contributes intensive locally-oriented sales efforts. Meanwhile, California-based Wordplex, which is located in the heart of the world's most active micro-electronics research and development region, serves as an additional means for AES to stay abreast of international technological changes in addition to the more tangible contribution of products which broaden the range of AES' services.

AES has created similar sales, service and software support groups in the United Kingdom and Europe. Without these facilities outside Canada, AES

would never have become a force in the international word processing market and Canadian sales and employment would be considerably less. In the light of this example, it is hardly surprising that most successful Canadian companies also operate internationally. CDC will continue to act with a global orientation in promoting strong and competitive Canadian-owned enterprises.

The AES success story also demonstrates the importance of our venture capital affiliates who work with fledgling but rapidly growing companies until they have achieved sufficient size to justify being taken out of the venture capital environment. We expect to acquire more CDC operating companies through our venture capital affiliates in the future.

Outlook

The year ahead promises further growth in sales, profits and investment despite an expected slowing of the rate of growth of the Canadian economy. All CDC companies should make significant contributions to your Company's earnings in 1979 with the exception of Petrosar, whose sales and operating cash flow are nonetheless expected to improve.

Polysar will continue to benefit from growing sales of technical products, past cost controls and expanded research. Texasgulf should experience increased demand and firmer prices for its fertilizers and minerals, improved profits in the oil and gas division and high operating efficiencies. CDC Oil & Gas expects modest increases in profits despite continuing excess supplies of gas. Our electronics companies are expanding their markets and intend to double their sales once again in 1979. Our life sciences group expects to enhance its 1978 results. And we can look forward to another year of growth in our venture and expansion capital companies which are so valuable in fostering entrepreneurship in smaller companies.

The expansion of our investment programs, the continuing growth in profits and the maturing of some earlier CDC investments lead us to the conclusion that your Company's future is bright indeed.

Directors, Staff and Shareholders

Louis R. Desmarais, Vice Chairman of the Board, a particularly active director and member of your Company's Executive Committee throughout its existence, has chosen to stand for election to the House of Commons and consequently will not be available to serve on our Board during the coming year. We will greatly miss his talents and enthusiasm.

F. H. Sherman, who has served your Company so well as a director, has also chosen not to stand for re-election to the Board this year. We thank him for his valued contributions on behalf of all our shareholders.

Early in 1979, Marshall A. Cohen and Dr. William C. Hood joined our Board upon their appointments to Deputy Minister of Industry, Trade & Commerce and Deputy Minister of Finance respectively. We welcome them as ex-officio members and express our warmest thanks to G. F. Osbaldeston and T. K. Shoyama, who have retired from these positions upon assuming other duties in the federal government.

We would like to express our sincere appreciation to a hard-working and dedicated staff which has contributed to the overall success of our operations. Reflecting the growth of the Corporation and our internal development program, Serge Gouin, John B. Hague and Peter K. Powell were appointed Executive Vice Presidents in February 1979 while Claude R. Marchand became Senior Vice President. At the same time, Jerry W. Bliley, James D. Ellis, Nigel G. D. Gray, Brian M. King and James M. O'Reilly were named Vice Presidents. We also extend our appreciation to the management and many thousand employees of our companies — some of whom are pictured in this report — who contributed so significantly to our growth and profits.

Finally, we owe a special word of thanks to you, our shareholders, who have joined us in the fascinating challenge of building a strong, profitable group of Canadian-controlled companies. Your continuing support has been a vital ingredient in CDC's success to date and reinforces our confidence in your Company's future.

Respectfully submitted on behalf of the Board,

A. John Ellis
Chairman

H. Anthony Hampson
President and Chief Executive Officer

April 6, 1979

Financial Review

Building strong, growth-oriented companies requires financial resources on a large scale. Funds for growth and development come from the reinvested earnings of our company in addition to debt and equity financing by CDC itself and by the individual companies within the group. Since earnings are fundamental to raising capital, we turn first to a consideration of the 1978 income statement.

Consolidated revenues increased to $1,305.9 million from $724.1 million in 1977. Revenue by industry sector was as follows:

	1978	1977
	(thousands of dollars)	
Petrochemicals	**$1,062,762**	$567,470
Life sciences	**132,270**	106,440
Oil and gas	**42,967**	34,888
Electronics	**44,549**	—
	1,282,548	708,798
Interest income	**13,042**	9,942
Other income	**10,302**	5,336
	$1,305,892	$724,076

In the petrochemical sector, start-up of Petrosar's commercial operations added $323 million to 1978 revenue. Polysar provided the remainder of the petrochemical revenue increase, with approximately one-third of this increase attributable to the increased Canadian dollar value of Polysar's foreign sales.

Substantial sales increases were realized in our life sciences and oil and gas operations and our word processing companies, acquired in August, added $45 million to consolidated revenues.

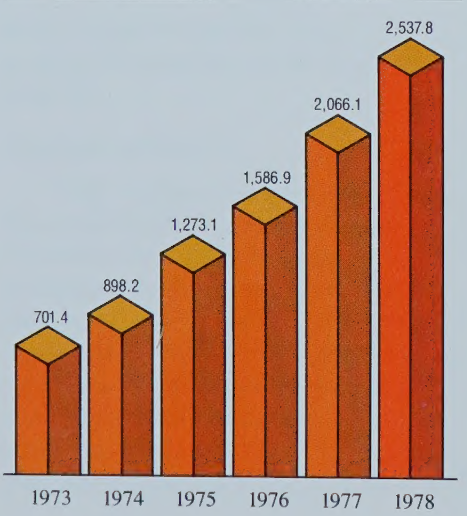
Cost of sales expressed as a percentage of total revenues rose to 79% from 76% in the previous year, the result of heavy start-up costs at Petrosar. Selling, administrative and research cost increases were chiefly associated with Polysar, Petrosar and our electronics companies. New debt financing during the year and the higher Canadian dollar cost of servicing foreign currency debt resulted in an increase in interest charges.

After elimination of intercompany transactions and of profit realized by our venture capital affiliates on the sale to CDC of their word processing companies, contributions to net earnings by our consolidated and affiliated companies were as follows:

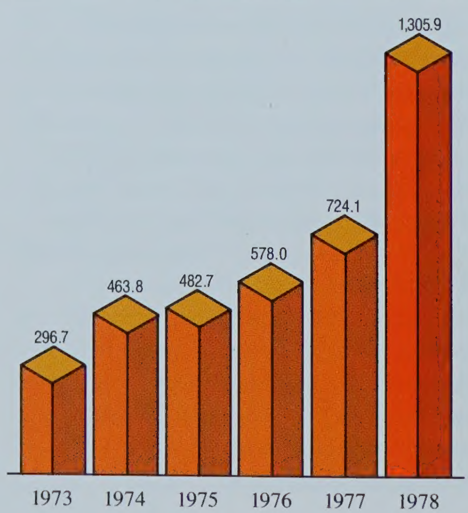
	1978	1977
	(millions of dollars)	
Petrosar Limited	**$(13.9)**	$ —
Polysar Limited	**24.2**	10.2
Texasgulf Inc.	**13.4**	10.9
CDC Oil & Gas Limited	**10.9**	10.4
CDC Life Sciences Inc.	**4.1**	(1.1)
CDC Data Systems Limited	**1.3**	—
Venture and Expansion Capital	**—**	—
CDC	**(3.6)**	(6.6)
Net income	**$ 36.4**	$ 23.8

Petrosar, as anticipated, incurred a loss in its first year of operation and Polysar, aided by translation gains, more than doubled its profits. Texasgulf improved its contribution, CDC Life Sciences yielded a satisfactory profit — the first since its inception — and the electronics companies made a small

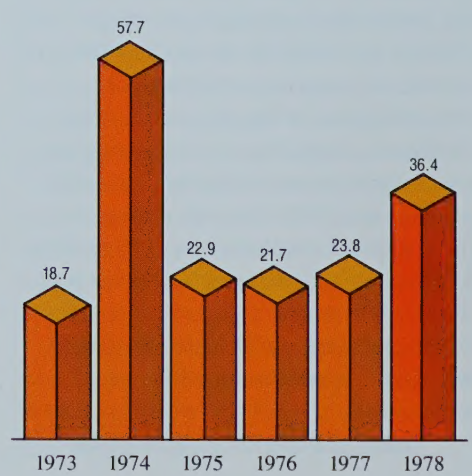
Total Assets
(millions of dollars)



Revenues
(millions of dollars)



Net Income
(millions of dollars)



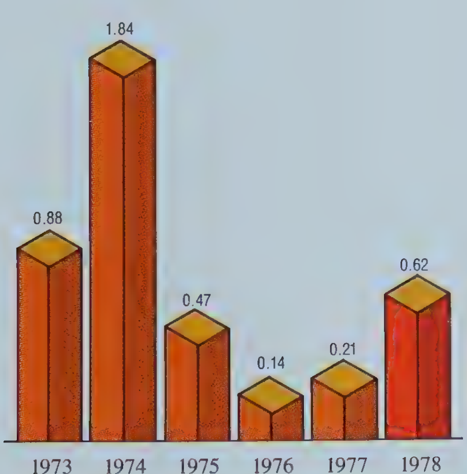
contribution to our profit. CDC's own net operating results improved due to higher rates of interest earned on larger amounts of short-term investments.

This improved performance brought net income per common share after preferred dividends to 62¢ in 1978 from 21¢ in 1977. Return on common equity improved to 4.0% from 1.4% in the previous year and increasingly good progress is now being made towards attainment of our corporate objective of a 15% return on common equity in the next few years.

Cash flow from operations was $133.7 million compared with $90.3 million in the previous year and $62.4 million in 1976, demonstrating an increasing ability on the part of the CDC group to generate internal funds to fuel growth.

After payment of dividends of $17.3 million on CDC's preferred shares, consolidated retained earnings stood at $164.1 million compared with $146.6 million a year earlier.

Earnings per Common Share
after Preferred Share Dividends
(dollars)



In addition to funds generated through earnings, the CDC group of companies obtained added capital through issues of long-term debt and term preferred shares. CDC itself obtained $154 million through a Swiss franc seven year debt issue at 4⅜%, a highly attractive rate compared with those prevailing in Canada. CDC Oil & Gas refinanced $53.3 million on a long-term basis. The life sciences group borrowed $4 million of long-term funds and the word processing companies also raised $9 million from long-term loans and mortgages. During the year, CDC extended the term of its $100 million issue of Class A preferred shares for two years to March 1981. Petrosar, Polysar and CDC Life Sciences raised $445 million, $85 million and $30 million respectively through issues of term preferred shares. These funds were used by the companies to reduce long-term debt by $187 million and increase working capital, as well as to undertake major capital investment and acquisition programs.

The major acquisition by CDC itself was the purchase from Innocan and Venturetek of AES Data Ltd. and Wordplex Corporation for an initial $28.1 million. A further amount, dependent upon earnings of AES and Wordplex, is payable in 1980. CDC has applied its share of the profit realized by our venture capital affiliates from these purchases as a reduction in the cost of the word processing companies, rather than including it in income.

Investment in other companies by subsidiaries of CDC was $18.6 million in 1978. Our affiliated companies also had an active year of acquisitions and investments, particularly in the venture and expansion capital group where the biggest items were CanWest Capital's acquisitions of Na-Churs International and Monarch Life Assurance.

Expenditures on properties, plant and equipment by CDC consolidated companies totalled $93.8 million, including: $33.4 million by CDC Oil & Gas; $32 million in petrochemical plant and equipment by Polysar and Petrosar; $15 million by CDC Life Sciences companies and $10 million by CDC Data Systems. In addition, Texasgulf had 1978 expenditures of over $100 million, of which approximately $45 million was spent at the Kidd Creek mining and processing facilities.

At the year-end, total assets exceeded $2.5 billion. Consolidated working capital was $413 million, placing the group in an excellent position to finance its continuing expansion and acquisition program.

Consolidated Financial Statements

Year Ended December 31, 1978

Summary of Significant Accounting Policies

This summary of the significant accounting policies of Canada Development Corporation and its subsidiaries is presented to assist the reader of the financial statements contained in this report.

Principles of Consolidation

These consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Corporation and its subsidiary companies, which are listed in Note 12.

Foreign Exchange

Non-Canadian current assets and liabilities are translated at rates of exchange in effect on December 31, all other assets, and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred, and income and expenses, except depreciation, depletion and amortization, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income.

Short-term Investments

Short-term investments are valued at cost which approximates market value.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Long-term Investments

The Corporation accounts for investments in companies over which it has significant influence on an equity basis. Other long-term investments are accounted for by the cost method.

Petroleum and Natural Gas Properties

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of acquiring properties, exploring for and developing oil and gas and related reserves are capitalized in various cost centres. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities.

Depreciation, Depletion and Amortization

Depreciation of plant and equipment other than that relating to petroleum and natural gas properties is based on the estimated useful life of the assets from commencement of production and is calculated on the straight-line or diminishing balance method as considered most appropriate.

Depreciation, depletion and amortization of producing oil and gas properties is provided by the unit-of-production method based on the estimated proven recoverable reserves of each cost centre as determined by company engineers. Costs of non-producing properties are being amortized on a straight-line basis over the anticipated period of exploration for each cost centre. If exploration proves to be successful, amortization is suspended and the unamortized balance is depleted on the unit-of-production basis.

Pre-production Expenditures

Pre-production expenditures incurred in connection with major new production facilities are deferred and amortized from commencement of production on the straight-line basis over a period generally not exceeding ten years.

Goodwill

Goodwill arising from acquisitions to the end of 1973 is recorded as an asset without amortization. Goodwill arising on acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years. If it subsequently becomes apparent that the value expected to be obtained has not been realized, or if the value of the goodwill is reduced or deteriorates, it will be appropriately amortized or written off.

Income Taxes

Income taxes include withholding taxes on dividends received.

For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income include taxes deferred as a result of these timing differences as well as taxes currently payable.

The Corporation does not give recognition to the potential tax benefit of losses until those benefits are realized. Recurring tax benefits, when realized, are not considered to be extraordinary in nature and are reflected as reductions of current income taxes.

Consolidated Balance Sheet

Assets	December 31 1978	1977
	(thousands of dollars)	
Current Assets		
Cash	$ 12,386	$ 6,294
Short-term investments	276,866	84,115
Accounts receivable	318,219	199,872
Inventories (note 1)	295,469	244,921
Other current assets	23,607	15,456
	926,547	550,658
Long-term Investments (note 2)	413,429	398,006
Fixed Assets (note 3)	1,067,481	1,026,272
Other Assets (note 4)	130,381	91,150
	$2,537,838	$2,066,086

Liabilities

	1978	1977
Current Liabilities		
Short-term loans	$ 253,693	$ 265,217
Accounts payable and accrued liabilities	240,080	195,914
Dividends payable	4,333	4,333
Income and other taxes payable	7,353	6,245
Long-term debt due within one year	8,490	9,527
	513,949	481,236
Long-Term Debt (note 5)	500,511	687,322
Deferred Income Taxes	46,804	37,233
Interests of Minority Shareholders (note 6)	745,690	146,932
	1,806,954	1,352,723

Shareholders' Equity

	1978	1977
Capital Stock (note 7)	566,810	566,810
Retained Earnings	164,074	146,553
	730,884	713,363
	$2,537,838	$2,066,086

Approved on behalf of the Board,

H. A. Hampson, Director

Laurent Beaudoin, Director

A glossary of financial terms appears on the inside of the back cover flap.

Consolidated Statement of Income

	Year Ended December 31 1978	1977
	(thousands of dollars)	
Revenue (note 8)	**$1,305,892**	$ 724,076
Expenses		
Cost of sales	**1,030,142**	549,484
Selling, administration and research	**164,949**	107,825
Interest on long-term debt	**35,732**	19,113
Other interest	**16,731**	10,056
	1,247,554	686,478
	58,338	37,598
Equity in earnings of other companies	**13,434**	10,897
Income before income taxes and other items	**71,772**	48,495
Translation gains	**(10,455)**	(6,825)
Income taxes	**19,635**	17,737
Minority interest in income of subsidiary companies	**26,179**	6,006
Provision for decline in value of investments	**—**	7,773
	35,359	24,691
Net income	**$ 36,413**	$ 23,804
Earnings per common share after preferred share dividends	**$0.62**	$0.21

Consolidated Statement of Retained Earnings

	Year ended December 31 1978	1977
	(thousands of dollars)	
Retained earnings at beginning of year	**$ 146,553**	$ 90,067
Net income	**36,413**	23,804
Excess of book value over cost at date of acquisition of subsidiary	**—**	51,574
	182,966	165,445
Dividends on preferred shares	**17,332**	17,332
Amortization of cost of preferred share issues	**1,560**	1,560
	18,892	18,892
Retained earnings at end of year	**$ 164,074**	$ 146,553

A glossary of financial terms appears on the inside of the back cover flap.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1978	1977
	(thousands of dollars)	
Working capital derived from		
Operations		
Net Income	$ 36,413	$ 23,804
Items not involving working capital		
Depreciation and depletion	52,580	39,510
Amortization	5,766	3,157
Decrease in equity of other companies	3,231	9,063
Deferred income taxes	9,571	8,806
Minority interest	26,179	6,006
	133,740	90,346
Issues of long-term debt	252,151	228,599
Investment by minority shareholders	602,170	42,540
	988,061	361,485
Working capital applied to		
Investment in petroleum and natural gas properties	33,418	70,942
Net additions to other fixed assets	60,371	230,195
Increase in investment in other companies	18,654	7,404
Dividends on preferred shares	17,332	17,332
Reduction of long-term debt	438,962	13,127
Additions to other assets	46,557	38,187
Dividends to minority shareholders	29,591	4,335
	644,885	381,522
Increase (decrease) in working capital	343,176	(20,037)
Working capital at beginning of year	69,422	89,459
Working capital at end of year	$ 412,598	$ 69,422

A glossary of financial terms appears on the inside of the back cover flap.

Notes to Consolidated Financial Statements

Year Ended December 31, 1978

1. Inventories

	1978	1977
	(thousands of dollars)	
Finished goods	**$146,322**	$126,927
Raw materials and work in progress	**113,843**	91,444
Operating and maintenance supplies	**35,304**	26,550
	$295,469	$244,921

In 1978, the first-in, first-out method of inventory valuation was extended to inventories previously valued on the last-in, first-out method to achieve uniformity within a subsidiary. This change resulted in an increase in net income of $2.3 million.

2. Long-term investments

	1978	1977
	(thousands of dollars)	
Mining (Texasgulf Inc.)	**$370,165**	$367,909
Venture and expansion capital companies	**19,736**	12,328
Life sciences group investments	**4,627**	3,575
Petrochemical group investments	**18,901**	14,194
	$413,429	$398,006

(i) The Corporation, through a wholly-owned subsidiary, owns 9,478,545 (30.2%) of the outstanding common shares of Texasgulf and 1,000,000 (33.3%) of the outstanding $3.00 convertible cumulative preferred Series A shares of Texasgulf. If all outstanding Texasgulf preferred shares were converted to common shares, the Corporation's ownership would be 30.7%. The quoted market value of the Corporation's shares of Texasgulf at December 31, 1978 was $251.5 million which because of the number of shares owned, is not necessarily indicative of the amount which would be realized if the shares were to be sold.

(ii) The excess of cost of the investment in the common shares of Texasgulf over the Corporation's equity in the net book value of Texasgulf at date of acquisition has been allocated to resource assets, which are diverse both in nature and in estimated length of economic life, and the excess is being amortized on a straight-line basis. The remaining period of amortization is 35 years.

The Corporation's equity in the reported earnings of Texasgulf which is included in "Equity in earnings of other companies" has been computed as follows:

	1978	1977
	(thousands of dollars)	
Share of net income of Texasgulf	**$17,273**	$14,724
Less amortization of excess of cost of investment over equity in net book value of underlying assets of Texasgulf	**3,869**	3,802
	$13,404	$10,922

3. Fixed assets

	1978			1977
	(thousands of dollars)			
	Cost	Accumulated depreciation and depletion	Net	Net
Land, plant and equipment	**$1,174,027**	**$309,206**	**$ 864,821**	$ 846,645
Petroleum and natural gas properties	**233,094**	**30,434**	**202,660**	179,627
	$1,407,121	**$339,640**	**$1,067,481**	$1,026,272

In 1978, the straight-line method of computing depreciation was extended to assets previously depreciated on the diminishing balance method to achieve uniformity within a subsidiary. This change resulted in an increase in net income of $2.0 million.

4. Other assets

	1978	1977
	(thousands of dollars)	
Long-term receivables	**$ 17,128**	$10,886
Pre-production expenditures	**58,233**	54,844
Goodwill	**46,328**	17,938
Cost of long-term financings	**8,692**	7,482
	$130,381	$91,150

During the next five years, pre-production expenditures will be amortized to income at the rate of $6 million annually. The 1977 comparative pre-production expenditures have been adjusted to reflect a reclassification to fixed assets.

5. Long-term debt

	1978	1977
	(thousands of dollars)	
Canada Development Corporation		
Income Debentures, due 1984 (United States dollars)	**$ 61,350**	$ 61,350
4.375% Notes, due 1985 (Swiss francs)	**153,988**	
	215,338	61,350
CDC Data Systems Limited		
Floating rate term loan repayable 1979 through 1982	**1,175**	
Floating rate term loans, repayable 1979 through 1981 (United States dollars)	**5,774**	
Other	**2,164**	
	9,113	
CDC Life Sciences Inc.		
8% mortgages, repayable 1979 through 1997	**4,814**	
Floating rate term loans, due 1980	**2,138**	
Floating rate term loan, repayable 1979 through 1986 (United States dollars)	**4,870**	5,471
9.25% mortgage, repayable 1979 through 1985 (United States dollars)	**3,034**	1,109
6% to 10% mortgages, repayable 1979 through 1985 (Danish kroner)	**2,274**	2,434
Other	**1,645**	8,945
	18,775	17,959
CDC Oil & Gas Limited		
Floating rate term loans secured by properties, repayable 1980 through 1988 (United States dollars)	**53,316**	
Customer prepayments	**2,142**	
	55,458	
Petrosar Limited		
Bank term loans		381,500
Customer prepayments		36,546
		418,046
Polysar Limited		
7.5% Sinking fund debentures, due 1979 through 1987	**9,143**	11,043
9% Sinking fund debentures, due 1979 through 1993	**33,411**	35,000
Other	**2,600**	1,385
In United States dollars		
10% Debentures, due 1982	**30,192**	30,192
9.5% Debentures, due 1986	**50,613**	50,613
Floating rate term loans, repayable 1980 through 1987	**53,735**	38,196
4.75% to 13.25% notes and mortgages, repayable 1979 through 2003	**5,706**	2,250
Capitalized lease obligations, expiring 1979 through 1985	**7,768**	8,707
In other currencies		
7.5% minimum rate, due 1981 (Swiss francs)	**6,244**	6,244
2.5% to 9%, repayable 1979 through 2004 (German marks)	**3,655**	4,264
9.25% repayable in 1979 and 1980 (French francs)	**727**	962
9% mortgage, repayable 1979 through 1981 (Belgian francs)	**463**	552
Capitalized lease obligations, expiring 1979 through 1992 (Belgian francs)	**1,180**	4,172
Other	**4,880**	5,914
	210,317	199,494
	509,001	696,849
Less principal due within one year	**8,490**	9,527
	$500,511	$687,322

Long-term debt payable in foreign currency would increase by $78.9 million if converted into Canadian dollars on the basis of exchange rates at December 31, 1978.

Sinking fund requirements and the long-term debt due in each of the next five years are as follows:
1979 — $8.5 million; 1980 — $16.2 million; 1981 — $20.6 million; 1982 — $44.3 million; 1983 — $14.6 million.

6. Interests of minority shareholders

	1978	1977
	(thousands of dollars)	
Preferred equity		
Petrosar		
Class A	**$445,000**	
Class B	**16,989**	
Class C	**69,800**	$ 68,971
Polysar		
First Preferred	**50,000**	50,000
Polysar Holdings (a subsidiary)	**85,000**	
CDC Life Sciences		
Connaught Laboratories (a subsidiary)	**30,000**	
CDC Data Systems	**19,327**	
	716,116	118,971
Common equity	**29,574**	27,961
	$745,690	$146,932

(i) Petrosar's Class A redeemable preference shares bear a cumulative dividend of 1.35% plus 52% of the Canadian bank prime rate. These shares are redeemable over the period 1979 through 1987 as follows:

1979 — $20 million; 1980 — $35 million; 1981 — $40 million; 1982 — $50 million; 1983 through 1987 — $60 million per annum.

Petrosar's Class B preference shares are redeemable only after dividends have been paid aggregating $100 per share plus 60 cents for each month that the shares have been outstanding.

The Class B shares are issued pursuant to an agreement whereby certain shareholders, including Polysar, have agreed to provide Petrosar with sufficient funds to enable it to pay the dividend on the Class A preference shares if Petrosar is unable to pay such dividends and to purchase these shares if not redeemed as scheduled. Polysar's portion of such obligation is 48%. The Corporation has guaranteed certain of Polysar's obligations under the financing arrangements, the amount of which may vary but is limited to a maximum of $30 million.

Petrosar's Class C redeemable preference shares bear a cumulative dividend of 10.5% beginning February 1, 1981. These shares were issued to certain shareholders, including Polysar, upon cancellation of their Subordinated Debentures and accrued interest thereon.

(ii) Polysar has outstanding $50 million 8.4% cumulative redeemable first preferred shares. Polysar is required during the 30-day period ending March 1, 1982, to invite tenders at $25 per share from the holders of these shares and to purchase on April 1, 1982 the shares so tendered.

Polysar Holdings' $85 million redeemable preferred shares bear a cumulative dividend of 1.25% plus one-half of the Canadian bank prime rate. Redemptions are required to be made in equal annual amounts from 1986 through 1988 inclusive.

(iii) Connaught Laboratories' $30 million redeemable preferred shares bear a cumulative dividend of 1% plus one-half of the Canadian bank prime rate. Redemptions are required to be made in equal amounts from 1981 through 1987 inclusive.

(iv) CDC Data Systems' $19.3 million preferred shares are redeemable in 1979.

7. Capital stock

(i) Authorized

Preferred

$1,000,000,000 divided into shares with a par value in any multiple of $5 not exceeding $1,000 each

Common

200,000,000 shares without par value

Issued	1978	1977
Preferred	*(thousands of dollars)*	
10,000,000 5¾% cumulative, redeemable, non-voting Class A shares of $10 each	**$100,000**	$100,000
1,447,802 8% cumulative, redeemable convertible, voting Class B shares of $100 each (1977, 1,447,803 shares)	**144,780**	144,780
Common		
30,712,170 shares (1977, 30,712,158 shares)	**322,030**	322,030
	$566,810	$566,810

The Class A preferred shares were initially redeemable on or after March 5, 1979, at the option of either the Corporation or any holder thereof at par plus all accrued and unpaid dividends. All holders have agreed with the Corporation to defer to March 5, 1981 the initial redemption date and all other terms attaching to the said shares remain the same. A By-law implementing this change has been passed by the Directors of the Corporation and will be presented for the sanction of the shareholders at the next Annual Meeting.

The Class B preferred shares are redeemable at the option of the holder from October 2, 1980 through December 31, 1980 and from October 2, 1985 through October 1, 1986, at par plus all accrued and unpaid dividends. They are also redeemable at the option of the Corporation, commencing October 2, 1980 at a price of $105 per share, reducing by $1 per year until October 2, 1985 when they become redeemable at $100 per share, plus in all cases accrued and unpaid dividends.

Each Class B preferred share carries the right to receive two bonus common shares, the first of which is to be issued to each holder of record on October 1, 1980, and the second to each holder of record on October 1, 1985, subject to earlier record dates being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

At meetings of shareholders, holders of Class B preferred shares are entitled to ten votes per share and holders of common shares to one vote per share.

(ii) Issued during the year

During 1978 the Corporation issued 12 common shares upon conversion of one Class B share.

(iii) Common shares reserved

At December 31, 1978, 14,478,020 common shares were reserved for issue upon the conversion of the outstanding Class B preferred shares. A further 2,895,604 common shares were reserved for issue pursuant to bonus common share rights.

8. Revenue

The revenue of the Corporation is derived from:

	1978	1977
	(thousands of dollars)	
Sales of products and services		
Petrochemicals	**$1,062,762**	$567,470
Life sciences	**132,270**	106,440
Oil and gas	**42,967**	34,888
Word processing	**44,549**	
	1,282,548	708,798
Interest income	**13,042**	9,942
Other income	**10,302**	5,336
	$1,305,892	$724,076

9. Acquisitions

On August 2, 1978, through a wholly-owned subsidiary, CDC Data Systems Limited, the Corporation acquired 53.7% of the outstanding shares of AES Data Ltd. which in turn acquired all of the outstanding shares of Wordplex Corporation. At the same time, the Corporation acquired 57.7% of the outstanding shares of Ventek Limited. Results of operations from the date of acquisition are included in the statement of income.

These acquisitions have been accounted for by the purchase method as follows:

		(thousands of dollars)
Net assets acquired at fair value:		
Current assets		**$48,505**
Non-current assets		**9,591**
		58,096
Current liabilities	**$43,491**	
Long-term debt	**8,949**	**52,440**
		5,656
Minority interest		**4,266**
		1,390
Goodwill		**26,684**
		$28,074
Consideration given:		
Cash		**$ 8,747**
Preferred shares of CDC Data Systems Limited (note 6)		**19,327**
		$28,074

In addition to the 1978 purchase price, the Corporation is obligated to make further payments conditional on future earnings. The amount of any such future payments will be added to goodwill.

These companies were acquired from two affiliated venture capital companies. The Corporation's share of the affiliates' realized gain has not been included in income, but has been treated as a reduction of the purchase price of these acquisitions.

10. Pension plans

Current service costs of pension plans are funded and charged to operations as they accrue. At December 31, 1978 the unfunded liabilities of the pension plans are estimated at approximately $16.0 million made up of past service costs of $7.6 million and an experience deficiency of $8.4 million. These liabilities are expected to be funded and charged to operations at an annual rate of approximately $3.1 million.

11. Remuneration of Directors and Officers

	1978	1977
Number of directors	**20**	21
Number of officers	**9**	9
Number of officers who are also directors	**3**	3
Aggregate remuneration of directors as directors of the Corporation	**$109,000**	$108,542
Aggregate remuneration of directors as directors of subsidiary companies	**$ 13,750**	$ 15,050
Aggregate remuneration of officers as officers of the Corporation	**$541,928**	$462,446

Officers of the Corporation received no remuneration from subsidiary companies.

12. Consolidated subsidiary companies

CDC Data Systems Limited
AES Data Ltd.
AES A.G.
AES GmbH.
AES Nederland B.V.
AES Schweiz A.G.
AES Wordplex Ltd.
AES Wordplex Europe Ltd.
Wordplex Corporation
Wordplex Leasing Ltd.

CDC Life Sciences Inc.
Bio-Research Laboratories Ltd.
Canada Pharmacal Co. (1975) Limited
The Canada Serum Company Limited
Comex Nederland B.V.
Comprator A.G.
Connaught Biologics Limited
Connaught Laboratories Inc.
Connaught Laboratories Limited
Connaught Laboratories (Export) Inc.
Connaught Laboratories (Ireland) Limited
Connlab do Brasil Industria e Comercio Limitada
OY Dumex AB
Dumex B.V.
A/S Dumex, Denmark

Dumex GmbH
Dumex Lakemedel AB
A/S Dumex, Norway
Dumex (Pty.) Ltd.
Dumex SPA
Laboratoires Nordic Inc.
Maltex APS
Omnimedic Inc.
R. & L. Molecular Research Ltd.
Raylo Chemicals Limited
Steele Chemicals Co. Ltd.

CDC Nederland B.V.

CDC Oil & Gas Limited
CDC Producing Company
CDC Oil & Gas International B.V.
CDC Oil & Gas (U.K.) Limited
CDC Minerals Limited

Petrosar Limited

Polysar Limited
Bellaplast GmbH
Bellaplast Nederland B.V.
Bellaplast (UK) Limited
Comshare Limited
General Plastics Co. Limited
Kayson-Mammoth Limited
Komfortplast GmbH
Nippon Polymers Company Limited
Polymer Services Inc.
Polysar Australia Pty. Ltd.
Polysar Belgium N.V.
Polysar Cayman Limited
Polysar de Venezuela S.A.
Polysar Deutschland GmbH
Polysar do Brasil Produtos Quimicos Ltda.
Polysar Europa S.A.
Polysar France S.A.
Polysar GmbH
Polysar Handelmaatschappij B.V.
Polysar Holdings Limited
Polysar Incorporated
Polysar International S.A.
Polysar Italiana S.P.A.
Polysar Latex, Inc.
Polysar Nederland B.V.
Polysar Plastics Inc.
Polysar Resins, Inc.
Polysar Rubber Services, Inc.
Polysar Skandinaviska A.B.
Polysar Technical Service Centre N.V.
Polysar (U.K.) Limited
Société Française Polysar
Synthetic Elastomers Development S.A.

Ventek Limited

Auditors' Report

To the Shareholders of Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the changes, with which we concur, in the method of valuation of certain inventories as referred to in note 1 and in the method of computing depreciation of certain fixed assets as referred to in note 3, have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada
March 30, 1979

THORNE RIDDELL & CO.
Chartered Accountants

CDC Unconsolidated Highlights

Financial Review	1978	1977	1976	1975	1974
			(millions of dollars)		
Income Summary					
Revenues	**$ 40.4**	$ 29.1	$ 24.6	$ 18.4	$ 15.0
Operating expenses	**2.9**	2.2	2.0	1.7	1.5
Interest expense	**8.5**	4.5	1.1	.9	2.6
Other	**—**	2.0	—	.7	(.3)
Net income	**29.0**	20.4	21.5	15.1	11.2
Balance Sheet Summary					
Working capital	**$134.3**	$ 27.3	$ 23.1	$ 67.0	$ 42.1
Total assets	**873.9**	677.2	605.4	608.9	446.0
Long-term debt	**215.3**	61.3	—	—	—
Shareholders' equity	**598.9**	588.6	586.9	581.7	433.0

The revenue increase to $40.4 million from $29.1 million was primarily attributable to higher interest earnings on CDC's short-term investments, an increase in dividends from Polysar and a dividend of $3 million from Venturetek, the result of its profit on the sale to CDC of Wordplex Corporation. Although treated as revenue in our unconsolidated results, none of these dividends are included in our consolidated earnings.

In support of their exploration and expansion programs, CDC made further investments of $5 million and $2 million respectively in two of its subsidiaries, CDC Oil & Gas and CDC Life Sciences. Its major investment of $28.1 million was for the purchase of the wordprocessing companies, AES Data and Wordplex Corporation.

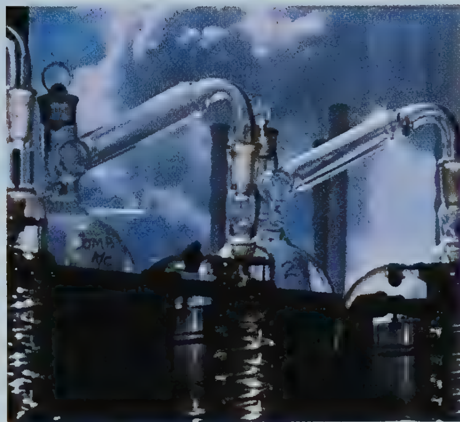
Retained earnings at year-end 1978 increased to $32.1 million, an amount that leaves a comfortable margin over the Corporation's own requirements for dividends and operating expenses.

Working capital increased by $107 million, the net result of $154 million in borrowings and the investments mentioned previously.

CDC's long-term investments at year-end totalled $678 million (valued at cost). By sector, they are found in the following proportions:

Petrochemicals	20.2%
Mining	47.3%
Oil and gas	16.0%
Life sciences	6.6%
Electronics	8.2%
Venture and expansion capital	1.7%









The Polysar Building
The Polysar Building


Petrochemicals

CDC has two related petrochemical investments — Polysar Limited and Petrosar Limited. Both are based in Sarnia, Ontario. Polysar's major products are synthetic rubber, latex, thermoplastic resins and basic materials for the chemical industry. The company has manufacturing subsidiaries in Europe and the United States. Petrosar, an integrated petrochemical refinery, produces ethylene, benzene and other olefins and aromatic petrochemicals, as well as gasoline and light and residual fuel oils as co-products.

General Review

***Polysar Limited** (100% CDC-owned):* Rubber sales and earnings made impressive gains in 1978 over 1977, despite modest growth in global demand. Product innovation and the improved competitiveness of Canadian products were contributing factors. In latex, there was a substantial sales improvement as new products resulted in increased penetration of the carpet industry. In chemicals, the new styrene monomer plant at Sarnia demonstrated excellent operating characteristics; sales were up, but world overcapacity held profits to unsatisfactory levels. Record resin sales were achieved. The European formed plastics products sector made an important contribution to earnings despite severe competitive pressures.

Polysar has adapted well to the realities of life in the modern era of scarce, high-priced energy. Energy consumption per pound of product at the company's largest plant, in Sarnia, has been reduced by a significant 45% since 1972. The company continues to seek out new efficiencies.

***Petrosar Limited** (60% CDC-owned):* Petrosar processes Canadian crude oil to produce naphtha, which is the feedstock necessary to provide the broad range of primary chemicals required by the partner companies, Polysar, Du Pont of Canada Limited and Union Carbide Canada Limited, and to meet other market demands.

Plant operating efficiencies improved during the year and the company achieved a commercial level of production on April 1, 1978.

The petroleum and petrochemical industries have changed dramatically in the years since Petrosar was designed, however. In particular, the price of crude oil has risen sharply and Canada now possesses surplus fuel oil refining capacity. Consequently, the Petrosar operation is being restructured to place less reliance on crude petroleum as a feedstock and to generate less fuel oil as a by-product of the refining process.

To date, there has been a 22% reduction in the plant's crude oil requirements compared with the design specifications. Further testing is being carried out to determine new uses for condensate as a feedstock. It is now believed that, by using 20,000 barrels per day of condensate, the crude oil requirements can be further reduced and the coincident output of refinery products might be held down to as little as 13,000 barrels per day of home heating fuel and 38,000 barrels per day of heavy fuel oil. This would mean a 50% reduction in the production of fuel oils from the original design specifications.

For Financial Reviews, see pages 32 and 33.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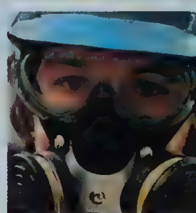
SIGNODE



Mining

CDC's mining interests are represented by its more than 30% ownership of Texasgulf Inc., a major diversified mining and natural resources company with world-wide activities and assets at the end of 1978 of over $1.5 billion. The metals operations, centred in Canada, produce zinc, copper, silver, lead, tin and cadmium in the form of concentrates and metals. Iron ore is also produced in Australia. Chemicals, produced in the United States, Canada and Mexico, include liquid and solid fertilizers, feed-grade phosphates, sulphur, soda ash and potash. Oil and gas is produced in Canada and the U.S.

General Review

During 1978, three unincorporated companies — in metals, chemicals and oil and gas — were formed to operate as profit centres.

Metals: Metals sales increased by 20.2% over 1977, as demand and prices for most metals began to recover. Production was held below capacity for much of the year to adjust to market demand and allow for planned reduction of metal inventories. As a consequence, total production for most metals decreased from 1977 levels.

At the Kidd Creek Mine at Timmins, Ontario, expansion of the concentrator capacity was completed, and work continued on construction of the Cdn$300 million 65,000-tons-per-year copper smelter and refinery, which is now over 50% complete. Development work on No. 2 mine also continued. The company is working toward completion of the latter two projects by the end of 1981. Operation of the Nanisivik zinc-lead-silver mine on Baffin Island produced a modest profit.

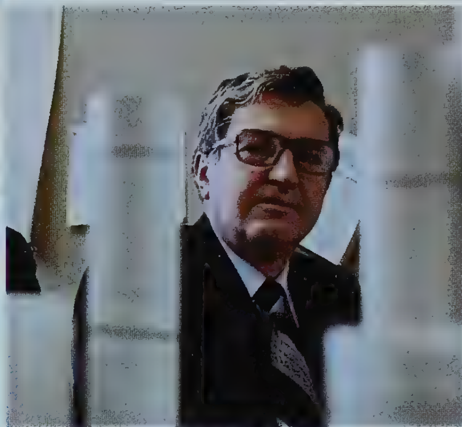
Chemicals: Sales and operating income for agricultural and industrial chemicals improved in 1978. There were substantial increases in sales of phosphates and soda ash and modest sales increases in sulphur and potash. Prices for phosphates and sulphur were somewhat higher than in 1977, but soda ash and potash prices remained about the same. While production was up in most areas, sulphur production at the company's Frasch mines in Texas was maintained at about 70% of capacity to reduce inventories and increase cash flow. In April, the Potash Corporation of Saskatchewan acquired a 60% interest in Allan Potash Mines; Texasgulf continues to own the remaining 40%.

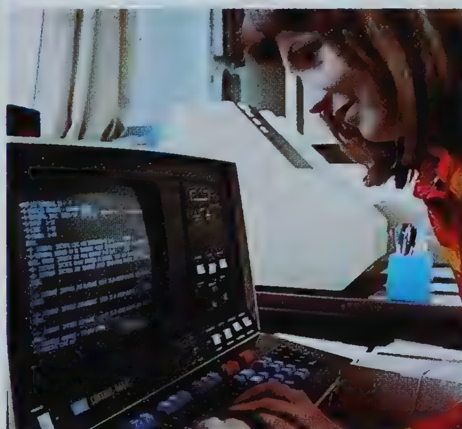
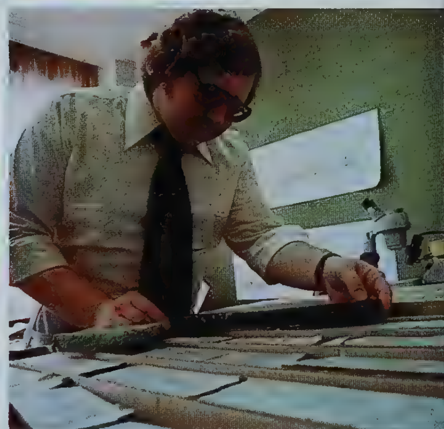
Oil and Gas: Operations during the year were affected by decreasing production from older properties and depressed demand for natural gas in Western Canada. Additional properties will go into production in 1979. Several new and promising prospects are being explored.

Other: A feasibility study on the Cerro Colorado project in Panama was completed and delivered to the Panamanian government. Financing discussions are now in progress. The company entered coal mining for the first time with the purchase of a small operating facility in Colorado.

For Financial Review, see page 34.








Oil and Gas

CDC Oil & Gas Limited, a wholly-owned subsidiary, is primarily involved in oil and gas exploration and production. Producing properties are mainly located in Western Canada and various interests are held in non-producing exploration acreage in Western Canada, the Mackenzie River Delta, the Beaufort Sea, Eastern Arctic and offshore Labrador areas. In 1978, the company also participated in evaluating two uranium prospects — one in Quebec and one in the Northwest Territories.

General Review

1978 was a very active year in the Western Canadian petroleum industry, as companies sought to replace production and expand their reserves. The high levels of seismic exploration, drilling and amounts bid at Crown sales, established in 1977, continued unabated.

The industry's shift in exploration efforts to the Western Canadian Basin has been the result of cheaper production costs, the existence of transportation facilities including pipelines, new incentive programs, economies of operations, less restrictive regulations, and a lack of major successes in the frontier areas.

Most attention has been focussed on the Foothills and Deep Basin areas of Alberta and British Columbia, where significant oil (West Pembina) and natural gas (Elmworth) discoveries have been made.

Exploration and development: Areas of exploration interest for CDC Oil & Gas now include all the high potential areas in Canada.

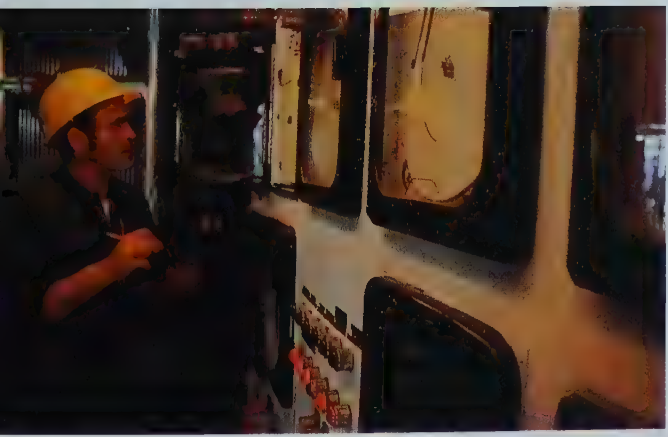
During the year the company participated in 10 exploration wells and 96 development wells, compared to 13 exploration wells and 24 development wells in 1977. (Participation is in gross wells.)

Gas discoveries included a well, just inside the Alberta border east of Pouce Coupe, British Columbia, which flowed at 16 million cubic feet per day (MMcf/d) and another, in the Alberta Foothills near Benjamin, which tested at 11 MMcf/d. The company also participated in the Hopedale discovery, offshore Labrador, which tested at rates of 18 MMcf/d and 24 MMcf/d from two separate zones. Further exploration and evaluation of this discovery continues.

An oil discovery was made at Bigoray in the West Pembina field and will be put on production following further testing and evaluation.

The company holds drilling reservations, permits and leases on a non-producing acreage inventory of 6 million gross acres (1.4 million net acres).

Production: Total sales volumes slightly increased in 1978 in terms of net equivalent barrels (barrels of crude oil, condensate and natural gas liquids, plus natural gas, converted on the basis of 6 Mcf equalling one barrel of crude oil) from 3,972,000 in 1977 to 4,008,000 in 1978. This small gain in sales volume can be attributed to a full year's production and higher average daily production from the Louisiana property during 1978, more than offsetting reduced production levels in Canada that resulted from restricted natural gas and crude oil markets and the natural decline in production from older fields.



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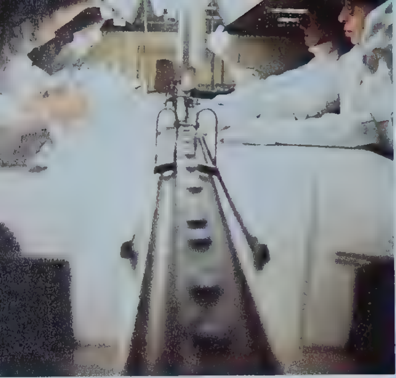
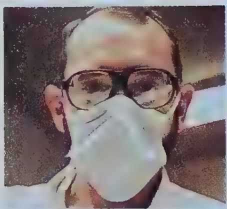
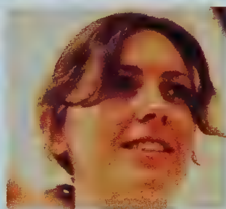
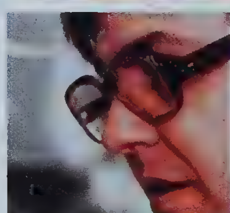







Life Sciences

CDC Life Sciences Inc. —previously Connlab Holdings Limited —consists of an internationally-oriented group of companies which are active in four main areas: biologicals, pharmaceuticals, life sciences contracting and fine chemical manufacturing. The members of the life sciences group produce complementary products and frequently each member acts as a supplier of products or services to other members of the group. Prior to the creation of this organization, Canada was one of the few major industrialized nations without a significant domestically-controlled life sciences firm.

General Review

Connaught Laboratories Limited *(100% CDC-owned):* Connaught produces a wide range of viral and bacterial vaccines. Besides being Canada's only producer of insulin and blood fractions, the company is North America's only producer of Salk vaccine; accordingly, it occupies a strong position as the market for inactivated polio vaccine expands. 700 Canadians are employed at Connaught's Toronto research and production facilities.

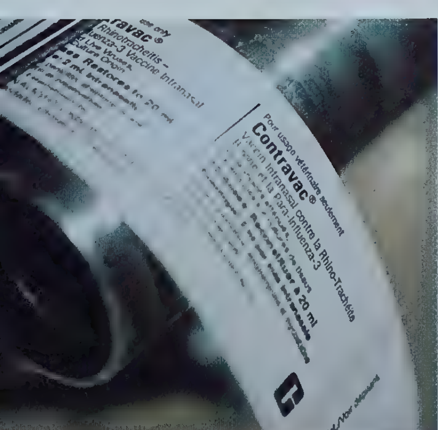
1978 was a turn-around year for Connaught as sales of most products increased and the company stepped up its research and development efforts. This was also the first operating year for the company's modern biological facility — specializing in flu, yellow fever and meningitis vaccines — in Swiftwater, Pennsylvania. During the year, the company obtained a substantial share of the U.S. market for flu vaccine and will be using Swiftwater as a base for significant expansion of biological sales in the United States.

A/S Dumex *(75% CDC-owned):* Based in Copenhagen, Dumex manufactures prescription drugs, nutritional products and baby foods which are marketed in over 40 countries in Europe, the Middle East, the Far East, Africa and South America. 1978 was the second-best year in the company's history with sales increases in three of the four major divisions.

Bio-Research Laboratories Ltd. *(100% CDC-owned):* This company was busy completing and equipping its new $6 million laboratory in Senneville, Quebec, building its scientific staff and expanding its marketing activities, particularly in the United States. The company provides contract research in toxicology to the pharmaceutical, pesticide, chemical and food industries. Bio-Research is the only Canadian company providing these services on a contract basis to industry and government.

Omnimedic Inc. *(70% CDC-owned):* A Montreal-based manufacturer of prescription drugs, the firm markets a variety of products across Canada through its own sales force under the name of Nordic Laboratories. The new product development program, based on products licensed from major international companies, was intensified. A significant new non-steroidal topical anti-inflammatory drug was registered for marketing in early 1979.

Raylo Chemicals Limited *(100% CDC-owned):* Noted for the production of highly specialized chemicals through novel chemical synthesis, the Edmonton company markets its products and services internationally. Sales of specialty chemicals rose substantially in 1978.



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Electronics

In August, 1978, CDC took a major step to ensure that Canada would have a strong national and international presence in the rapidly growing office products sector of the electronics industry, by forming a wholly-owned subsidiary, CDC Data Systems Limited, which acquired two promising companies manufacturing similar yet complementary word processing systems — AES Data Ltd. of Montreal and Wordplex Corporation of California. Wordplex was then merged into AES. As part of the transaction, CDC also acquired Ventek Limited, a U.K.-based distributor of data processing equipment. Ventek is held directly by CDC and is not a part of CDC Data Systems.

General Review

AES Data Ltd. *(54% CDC-owned):* The word processing companies have a remarkable history of growth. In 1978 alone, the combined AES/Wordplex sales rose to $72.3 million from $31 million in 1977. Indeed, 1978 was the third successive year in which AES increased sales by over 100%. 75% of the company's product is exported and this combination of high growth and solid export orientation has created hundreds of new Canadian manufacturing, sales and service jobs.

At the beginning of 1978, AES operated a single manufacturing plant in Montreal and ten sales offices across Canada. By the end of the year three new plants had opened in Montreal, a new manufacturing and research centre had opened in Mississauga, Ontario, and there were four additional Canadian sales and service offices. Equally dramatic growth took place in the United States, the United Kingdom and Europe.

AES is the market leader in Canada and the U.K. in video display word processing systems and is a major contender in the United States and Europe. AES and Wordplex products enjoy outstanding sales and service representation throughout the U.S. through Lanier Business Products, a major distributor of office equipment. Lanier owned part of AES before the CDC acquisition and still retains 36%.

Ventek Limited *(57% CDC-owned):* In the process of acquiring the two word processing companies, CDC also purchased majority ownership of Ventek Limited, a U.K.-based distributor of computer hardware and software, and supplier of both maintenance and programming services.

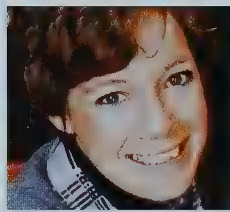
Ventek holds U.K. distribution rights to the American-made Datapoint line of computer products.

What is word processing?

A revolution is underway in the business offices of the world — and CDC is helping to lead the way. The change — so dramatic that many traditional secretarial functions may be obsolete within a decade — is known as word processing.

Essentially, a word processor is a dramatically advanced, automated typewriter. In the most advanced version, the operator simply types a text of any length into the memory bank. At the same time, the text is displayed on a television-like video screen. The operator can then make any editing changes on the screen — even to the extent of rearranging entire paragraphs — before committing the text to paper. When it has been perfectly edited, the text can be reproduced on paper by a high-speed printer at 540 words a minute, as often as the operator likes. The word processor can be programmed to justify margins, insert personalized names in a multi-copy run of letters or perform a multitude of other time-consuming typing functions. Word processing technology is advancing with breath-taking speed, redefining the entire meaning of office efficiency.

For Financial Review, see page 37.

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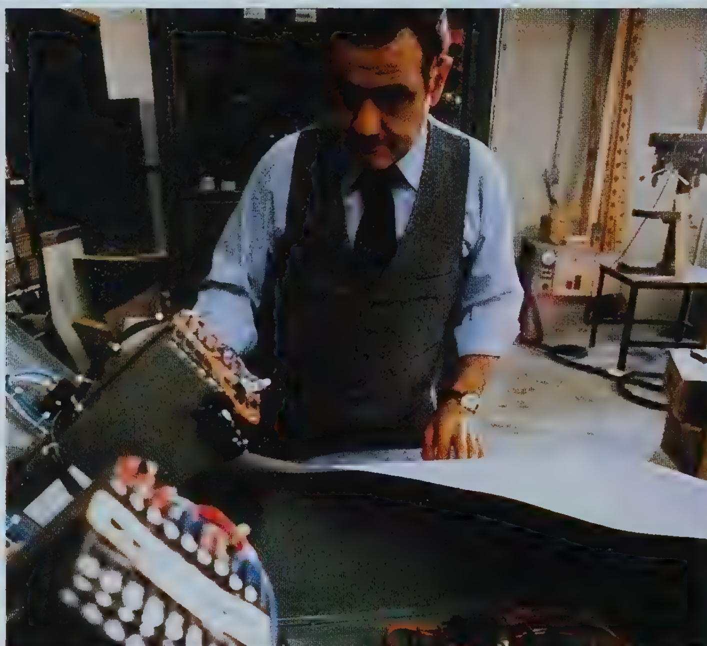


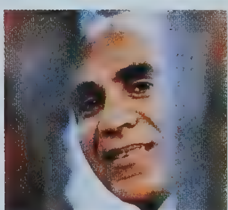
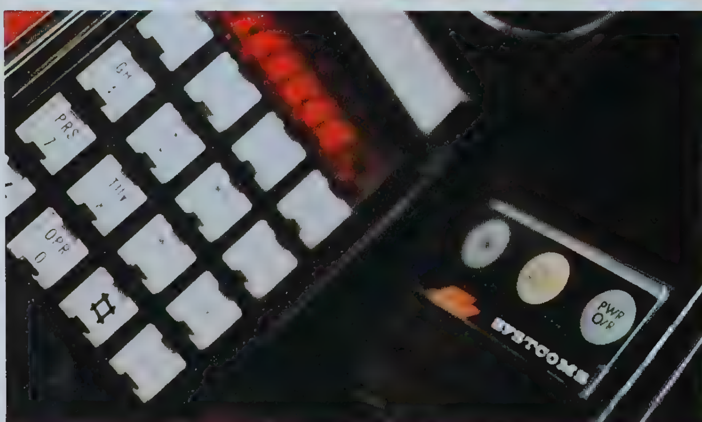

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Venture and Expansion Capital

CDC participates with other investors in three venture capital companies which provide equity capital to smaller business ventures in the conceptual or early development stage — businesses which appear to have a substantial potential for earnings growth in the long term. Some of these companies, as happened with AES Data and Wordplex, may become candidates for CDC acquisition. CDC also participates in CanWest Capital Corporation, Winnipeg, a management organization which acquires medium-size companies with a view toward restructuring and/or long-term development.

General Review: Expansion Capital

CanWest Capital Corporation. *(35% CDC-owned).* There were two major acquisitons for this Winnipeg company during 1978 — Monarch Life Assurance Company of Winnipeg, which had total insurance in force at the end of 1978 of $2.5 billion, and Na-Churs International Limited, a manufacturer of liquid fertilizers for the agricultural industry. In addition, CanWest holds a 50% voting interest in Global Television, which operates six stations in Ontario, and controls Universal Subscription Television, Inc., a company involved in developing pay TV franchises and is now supplying services in three U.S. metropolitan areas. CanWest's consolidated statement shows assets of $55.5 million. Taking other unconsolidated assets into account, however, CanWest's total assets exceed $400 million.

General Review: Venture Capital

Innocan Investments Ltd. *(37% CDC-owned):* This venture-oriented affiliate had the most successful year since the beginning of its operations. Consolidated sales increased by 22% and operating income was up by 146% over the previous year even though three of the company's assets — AES, Innopop and Cybermedix — were disposed of during the period. Consolidated sales and operating income have increased every year since CDC assisted in launching Innocan. Innocan made two new acquisitions and entered into a number of new market areas through its subsidiaries during the year. Innotech Aviation, Lorcon and Sentrol Systems each achieved new high levels in both sales and profits.

Ventures West Capital Ltd. *(49% CDC-owned):* During 1978, this Vancouver company acquired a controlling interest in International Mobile Data Inc., a manufacturer of advanced mobile interactive computer terminals which connect to their mainframe by radio rather than land-line. This has exciting potential for use in police cars, transit vehicles and commercial vehicles. In 1978 the company sold its interest in Canadian Foremost. Its current holdings include Frio Oil Ltd., Controlled Environments Limited, which markets biological growth chambers, A. Freen Ltd. which produces a technically advanced rear projection screen, and a portfolio of mineral exploration companies. The company is a leading source of funds for entrepreneurial geologists in Western Canada, the Yukon and Northwest Territories.

Venturetek International Limited *(32% CDC-owned):* The major event of the year was the sale of Ventek International Limited, the holding company for Wordplex Corporation and Ventek Limited. During 1978, PoP Shoppes' management was reorganized to prepare for its next major growth phase. Substantial profit increases were experienced from McPhar Instruments, a manufacturer and marketer of geophysical instrumentation, and Conat Industries, a distributor of wood-seasoning equipment. Gestalt International, a company involved in airborne mapping and geophysical exploration services, was reorganized. Stake Technology Ltd. continues to thrive; the company converts cellulose from waste wood and crops into a highly economical, nutritious cattle feed.

Financial Review

In general, the investments of Ventures West and Innocan, as well as most of the investments made by the other two venture and expansion capital companies affiliated with CDC, returned profits in 1978. There were exceptions to this generalization, however. CanWest, for example, incurred heavy start-up costs for its U.S. pay television system while Venturetek absorbed costs in reorganizing a major subsidiary. The net effect was that the venture and expansion capital companies did not contribute to CDC's profit in 1978. CDC's share of the profits from the Wordplex and AES sales by Venturetek and Innocan respectively reduced our cost of acquiring those companies rather than increasing the earnings contributions from the venture capital firms.

Failure of individual venture capital investments to return a profit in any given year is normal. Venture capital companies operate with the expectation that profits on their individual investments will be returned through sales of those companies after they have been developed to a point where they are attractive to other investors. We are confident that the current portfolio of high-risk, high-technology investments held by our affiliated venture and expansion capital companies will result in substantial profits over the next few years.

Polysar Limited

Financial Review	**1978**	1977	1976	1975	1974
			(millions of dollars)		
Income Summary					
Revenues	**$747.8**	$577.0	$457.6	$392.1	$392.4
Cost of sales	**612.3**	481.3	381.9	328.2	300.0
Selling, administration and research	**72.4**	58.2	46.1	43.3	38.5
Interest expense	**28.3**	21.0	14.9	15.2	14.3
Taxes, minority interest, other	**16.3**	2.0	7.2	3.8	21.5
Net income	**18.5**	14.4	7.5	1.6	18.1
Cash flow	**64.1**	41.6	28.0	23.2	45.6
Balance Sheet Summary					
Working capital	**$200.8**	$ 99.1	$ 77.8	$ 91.2	$ 84.4
Fixed assets (net)	**216.3**	222.8	207.3	150.4	133.0
Total assets	**766.1**	646.4	530.5	415.5	398.0
Long-term debt	**205.1**	191.8	160.6	97.1	99.1
Shareholders' equity	**262.3**	255.9	211.4	197.8	150.6

Sales and Income: Total sales for 1978 were $740 million, representing an increase of 30% over sales of $567 million in 1977. Despite absorbing a $10 million equity loss on Petrosar, net income reached a record $18.5 million compared with $14.4 million last year. Funds generated from operations rose to $64.1 million from $41.6 million in 1977.

Sales by Product: Sales revenue by product group were as follows:

	1978	1977
	(millions of dollars)	
Rubber	**$430**	$334
Latex	**96**	74
Plastics & Chemicals	**192**	142
Other	**22**	7
Total Sales	**$740**	$567

During the year, the company increased its working capital by $101.7 million to a level of $200.8 million. This was largely accomplished by issuing $85 million of preferred shares.

Higher levels of long-term debt and significantly higher short-term interest rates, together with $7.6 million of preferred share dividends, caused an increase in financing costs to $35.9 million versus $25.2 million in 1977.

Capital Expenditures: Additions to and improvement of property and equipment through direct capital spending amounted to $37.9 million. In 1978, Polysar's investment in Petrosar was increased by $15.8 million in the form of subordinated preferred shares and its total investment at year-end stood at $95.1 million. Capital spending in 1979 to complete programs for further capacity increases, as well as additional investment in Petrosar, will approximate $82 million.

Comshare Limited: This Toronto-based computer services business, in which Polysar has a majority investment, made an improved contribution to Polysar's earnings in 1978.

Outlook: Polysar continues to strengthen its present business base and to extend its success in international markets through optimization of product mix, particularly with the development and commercialization of technologically advanced products. These key products are the result of sophisticated ongoing research and development strategies. Additional capacity for high technology products is being installed in Canada and Europe.

Petrosar Limited

Financial Review	**(9 months) 1978**
	(millions of dollars)
Income Summary	
Revenues	**$401.1**
Cost of sales	**376.6**
Depreciation, selling and administration expenses	**28.7**
Interest expense	**6.0**
Taxes, and other	**21.9**
Net income	**(.8)**
Cash flow	**9.5**
Balance Sheet Summary	
Working capital	**$ 3.9**
Fixed assets (net)	**587.5**
Total assets	**819.8**
Shareholders' equity	**646.9**

Sales and Income: For the period April 1 to December 31, 1978, sales totalled $401 million and operations for the same period resulted in a net loss of $800,000. After provision for dividends on Class A preferred shares, the loss to common shareholders was $25.1 million. Marketing activities concentrated on moving products — either through sales or through trade — as they became available.

Financial: Petrosar issued $445 million of Class A preferred shares to a consortium of Canadian chartered banks. At the same time, a revolving line of credit of $100 million was established with the consortium. Polysar Limited, Du Pont of Canada Limited and Union Carbide Canada Limited exchanged their holdings of Petrosar Subordinated Debentures for $139 million of Class C preferred shares and purchased $20 million of Class B preferred shares. Additional issues of Class B shares totalling $13 million were purchased by the same shareholders later in the year.

The total capital investment in Petrosar's physical facilities is now $497 million. After including the cost of land and capitalized interest, the total investment in property, plant and equipment has reached $587 million and total assets at year-end amounted to $820 million.

Outlook: While the market for liquid fuel products has been depressed by the regulated price of abundant natural gas, the strong long-term demand for basic petrochemicals and the competitive potential of the Canadian industry provides a basis for guarded optimism that Canada's petrochemical producers are entering an era of steady growth and long-term viability.

National significance:

Petrosar represents an important step towards establishment of the Canadian petrochemical industry on a world competitive scale. At full production, the 2.7 billion pounds of olefin and aromatic product generated by this company will be the feedstock for further upgrading and, directly and through additional processing by other industries, is expected to contribute approximately $1.3 billion annually to Canada's balance of trade. The potential for increased employment through the full process of manufacturing Petrosar's feedstock into consumer products is estimated to be 8,000 to 9,000 permanent jobs.

Ethylene constitutes about one-third of Petrosar's petrochemical output; the balance consists of butylene, isobutylene, propylene, butadiene, benzene and toluene/xylene. These primary petrochemicals are all part of the basic blocks on which the chemicals industry builds to form the elastomers, the synthetic fibres, the plastics and various chemical additives. Down the line, these are further processed to become auto parts, clothing, carpets, paints, pipes and the myriad plastic items that enrich our lives.

Texasgulf Inc.

Financial Review	1978	1977	1976	1975	1974
		(millions of U.S. dollars)			
Income Summary					
Revenues	**$ 608.9**	$ 491.1	$ 490.6	$ 461.6	$583.8
Operating costs and exploration	**481.3**	375.8	342.8	277.7	286.9
Selling, administration	**24.9**	24.0	25.8	16.1	18.7
Interest	**35.0**	27.0	27.0	14.0	14.4
Income taxes	**17.6**	18.0	34.2	60.1	120.1
Net income	**50.1**	46.3	60.8	93.7	143.7
Working capital provided from operations	**107.2**	84.8	113.1	175.9	218.1
Balance sheet summary					
Working capital	**$ 233.0**	$ 249.8	$ 247.9	$ 180.4	$184.1
Fixed assets (net)	**1,031.4**	997.5	888.6	750.3	545.7
Total assets	**1,513.8**	1,477.9	1,315.4	1,100.7	939.5
Long-term debt (less current maturity)	**357.4**	366.6	266.2	227.9	134.7
Shareholders' equity	**766.4**	752.1	750.2	576.8	517.6

(All figures are reported in U.S. dollars unless otherwise stated).

Sales: Sales for 1978 rose to $602.3 million, compared with $482.6 million in 1977, largely as a result of increased volumes for phosphates, sulphur, soda ash, zinc and copper. Prices were slightly higher for silver, phosphate fertilizers and sulphur. The average 1978 copper price of 63¢ a pound was unchanged from 1977. Zinc prices were lower for the year, averaging 30¢ per pound compared with 34¢ in 1977.

Income: Net income for 1978 amounted to $50.1 million compared with $46.3 million for 1977. CDC's share of these earnings, after amortization of excess cost of investment over net book value, was Cdn$13.4 million. Texasgulf's net income per common share in 1978 was $1.33 versus $1.21 in 1977.

In 1978, Texasgulf Chemicals Company achieved a 40% increase in operating income, to $61.2 million, before interest expenses and income taxes; Texasgulf Metals Company experienced a decline to $53.7 million from $56.7 million; and Texasgulf Oil and Gas Company reported an operating loss of $.4 million compared with an operating profit of $2.2 million in 1977.

Operations: Overall operating costs were higher in 1978 largely because of higher sales volumes but partly because of inflationary effects on costs for energy, labour and materials. Higher unit costs for both Frasch sulphur and zinc metal resulted from lower operating rates established to reduce inventories. Sulphur production was about 70% of capacity and zinc plant production ran around 65% of capacity. Unit costs for phosphate fertilizer products were lower for 1978 as a result of higher operating rates. Oil and gas price increases in 1978 were offset by depressed demand for natural gas in Western Canada and declining production. Working capital stood at $233.0 million and total assets were over $1.5 billion at year-end 1978.

Capital Expenditures: Capital expenditures during 1978 were $90.1 million. For 1979, capital expenditures of $125 million are anticipated.

Outlook: The outlook for 1979 is very good. Sales and earnings improved with each successive quarter of 1978, and fourth quarter earnings of 41¢ per share compared with 19¢ per share in the fourth quarter of 1977. The demand for all Texasgulf products is increasing and prices are improving.

During the past several years, heavy capital expenditures, requiring substantial financing, have occurred in a period of declining earnings and cash generation caused by depressed prices and demand. This difficult period now appears to have ended. Texasgulf is in sound financial condition with basic strengths in reserves and physical assets, a strong working capital position and conservative debt ratios.

CDC Oil & Gas Limited

Financial Review	**1978**	1977	1976
(Acquired December, 1975)		*(millions of dollars)*	
Income Summary			
Revenues	**$ 43.2**	$ 35.3	$ 26.5
Cost of sales	**15.6**	12.6	10.0
Administration	**1.3**	1.0	1.0
Interest expense	**6.6**	2.4	2.1
Taxes and other	**7.9**	7.1	4.7
Net income	**11.8**	12.2	8.7
Cash flow	**25.6**	25.4	18.3
Balance Sheet Summary			
Working capital	**$ 3.1**	$ (44.7)	$ 5.4
Fixed assets (net)	**168.7**	142.6	77.8
Total assets	**180.2**	151.9	86.1
Long-term debt	**80.5**	20.0	20.0
Shareholders' equity	**72.8**	65.5	57.8

Total revenue for 1978 increased to $43.2 million from $35.3 million in 1977. Cash flow from operations remained approximately level, but higher taxes, interest costs and operating expenses all contributed to a slight drop in net income.

The increase in interest expenses from $2.4 million in 1977 to $6.6 million in 1978 resulted almost entirely from the US $45 million loan used for the acquisition of the Joyce Tract in 1977 being outstanding for a full year. The interim financing for this purchase, mentioned in the 1977 Annual Report, was put on a long-term basis in 1978.

Reserves: The company successfully replaced its production of 4 million net equivalent barrels and added 8½ million net equivalent barrels to its proven reserves in 1978. Total proven reserves after royalties, at the end of 1978, were 15.8 million barrels of liquids and 276.6 billion cubic feet of natural gas for a total of 62 million net equivalent barrels.

A substantial portion of the crude oil reserves is located in the Hussar, Pembina and Swan Hills fields of Alberta. The major natural gas properties are Paddle River, Brazeau, Crossfield, Carstairs and Hussar in Alberta and the Joyce Tract in southwestern Louisiana.

Outlook: Producers of crude oil and natural gas remain susceptible to changes in government pricing and marketing policies and will be vulnerable at both production and cash-flow levels to market restrictions and price regulations.

At CDC Oil & Gas, near-term production will continue to be curtailed by limited markets coupled with increases in surplus Canadian supplies of both oil and natural gas. Cash flow and earnings in 1979 are expected to be similar to those of 1978.

Exploration and development expenditures, however, are being increased substantially and are expected to exceed $40 million in 1979, compared to some $30 million in 1978. The great majority of these expenditures will continue to be in Alberta and British Columbia with expanded participation in exploration in selected frontier areas and for uranium.

CDC Life Sciences Inc.

Financial Review	**1978**	1977	1976	1975	1974
			(millions of dollars)		
Income Summary					
Revenues	**$ 139.8**	$ 109.2	$ 90.8	$ 83.6	$ 68.6
Cost of sales	**66.6**	56.1	47.7	44.8	36.6
Selling, administration and research	**60.4**	45.2	38.4	34.8	27.9
Interest expense	**6.2**	4.4	3.8	3.6	3.3
Taxes, minority interest, other	**2.5**	4.8	.5	2.1	1.2
Net income	**4.1**	(1.3)	.4	(1.7)	(.4)
Cash flow	**10.7**	5.7	3.7	1.4	3.1
Balance Sheet Summary					
Working capital	**$ 39.4**	$ 13.1	$ 15.9	$ 8.3	$ 10.6
Fixed assets (net)	**51.0**	40.1	35.8	33.8	32.1
Total assets	**152.8**	108.7	101.3	89.8	82.7
Long-term debt	**18.0**	16.1	16.2	14.5	10.2
Shareholders' investment	**44.7**	38.6	39.9	32.5	34.2

With a net profit of $4.1 million in 1978 compared with a loss of $1.3 million in 1977, the group had its best year since its formation. Revenues increased from $109.2 million to $139.8 million during the year. Connaught Laboratories and A/S Dumex were the principal contributors to the improved performance.

Connaught Laboratories: Sales increased to $41 million in 1978 — an increase of $16 million over 1977 — and the first profit was produced by the company since its acquisition in 1973. Sales of Salk vaccine increased as the result of a polio outbreak in Canada; there was an increase in the processing of plasma products and strong sales of flu vaccine in the U.S.

A/S Dumex: Sales increased by $7 million to $83.7 million in 1978. The volume of sales for pharmaceutical, nutritional and animal health products increased while the higher value of the Danish krone also added to the value of sales. These increases were achieved despite a notable reduction in sales of proprietary medicinal products to Nigeria due to that country's import restrictions.

Bio-Research Laboratories: The company incurred a loss in 1978 as a result of its move to new facilities but, by year-end, it was making promising inroads into the rapidly-expanding U.S. and foreign markets for contract toxicology services.

Omnimedic: Operations were affected by a lengthy labour dispute which was still unresolved at year-end. Consequently, a small loss was incurred despite a sales increase of 7%.

Raylo Chemicals: This company made a small profit in 1978. Although contract research sales increased modestly, there was a doubling in the volume of fine chemical custom synthesis.

Outlook: The outlook for the Life Sciences group is for a continued increase in profits in 1979. Connaught is increasing its commitment to research aimed at creation of significant new products and is now working with the Veterinary Infectious Disease Organization (VIDO), a non-profit Saskatchewan-based organization conducting research into the common infectious diseases affecting food-producing animals. One of the early projects in the Connaught-VIDO affiliation is aimed at developing a vaccine to prevent diarrhea in newborn calves. At Dumex, sales and profits will rise across the board. Another loss is expected at Bio-Research in 1979 as the company gears up for full-scale operations but sales will increase markedly, giving a strong foothold in the U.S. market. Omnimedic will show substantial sales growth and a return to profitability while Raylo is expected to record further major increases in its custom synthesis business.

AES Data Ltd.

Financial Review	(5 months) 1978
(Acquired August, 1978)	*(millions of dollars)*
Income Summary	
Revenues	**$36.4**
Cost of sales	**17.6**
Selling, administration and research	**15.3**
Interest expense	**1.4**
Taxes, minority interest, other	**1.2**
Net income	**.9**
Cash flow	**4.0**
Balance Sheet Summary	
Working capital	**$ 9.3**
Fixed assets (net)	**8.0**
Total assets	**69.7**
Long-term debt	**17.1**
Shareholders' equity	**12.7**

AES Data Ltd.: Although AES and Wordplex results were only consolidated with CDC's for that portion of 1978 which followed the acquisitions (August to December), a true picture of the exceptional growth of these companies is seen in the combined results for the year when sales rose from $31 million in 1977 to $72.3 million at the end of 1978 — an increase of 133%. Working capital at year-end stood at $9.3 million. Total assets were $69.7 million. The organization employed almost 1,100 Canadians — and an additional 400 worldwide to sell and service its products.

Outlook: New products will be introduced in 1979, and research and development for future products in this highly competitive, high technology field are proceeding at top speed. The sales outlook for 1979 is excellent.

Ventek Limited

Financial Review	(5 months) 1978
(Acquired August, 1978)	*(millions of dollars)*
Income Summary	
Revenues	**$ 8.2**
Cost of sales	**4.2**
Selling, administration and research	**3.6**
Interest expense	**.1**
Taxes, minority interest, other	**(.2)**
Net income	**.5**
Cash flow	**3.0**
Balance Sheet Summary	
Working capital	**$ 3.9**
Fixed assets (net)	**1.1**
Total assets	**9.5**
Long-term debt	**.6**
Shareholders' equity	**2.5**

Ventek Limited: The most significant aspect of this computer distributor's story is the company's continued growth. In 1971, a year-old Ventek employed only 30 people in a single office. Sales were less than $750,000 a year and the company lost approximately $250,000 during that twelve-month period. Today, the company has grown to over 300 employees in more than a dozen offices throughout the United Kingdom, revenues for the full year totalled $21.3 million (up from $13.4 million a year earlier), working capital at year-end was $3.9 million and total assets had reached $9.5 million.

Outlook: Ventek's market size depends, in large measure, on the cost advantage enjoyed by smaller, specialized computers over their larger, general-purpose counterparts. The cost trend in recent years has favoured the smaller computers such as those sold by Ventek. Present indications are that the company's growth rate will continue for the foreseeable future.

CDC Consolidated Financial Summary

	1978	1977	1976	1975	1974	1973	1972
				(thousands of dollars)			
Revenue							
Sales of products and services	**$1,282,548**	$ 708,798	$ 564,226	$ 469,605	$ 454,204	$ 285,029	$ 92,333
Other income	**23,344**	15,278	13,755	13,055	9,610	11,651	3,974
	1,305,892	724,076	577,981	482,660	463,814	296,680	96,307
Expenses							
Cost of sales	**1,030,142**	549,484	441,353	373,170	336,701	220,846	79,490
Selling, administration and research	**164,949**	107,825	88,346	81,002	69,209	40,909	12,031
Interest on long-term debt	**35,732**	19,113	10,098	10,255	10,994	4,835	1,614
Other interest	**16,731**	10,056	8,533	7,789	5,576	5,441	492
	1,247,554	686,478	548,330	472,216	422,480	272,031	93,627
	58,338	37,598	29,651	10,444	41,334	24,649	2,680
Equity in earnings of other companies	**13,434**	10,897	12,116	25,321	40,210	6,757	—
Income before income taxes and other items	**71,772**	48,495	41,767	35,765	81,544	31,406	2,680
Translation (gains) losses	**(10,455)**	(6,825)	4,428	(344)	1,536	(625)	—
Income taxes	**19,635**	17,737	11,349	8,358	8,472	6,601	925
Minority interest in income of subsidiary companies	**26,179**	6,006	4,610	3,285	175	30	(318)
	35,359	16,918	20,387	11,299	10,183	6,006	607
	36,413	31,577	21,380	24,466	71,361	25,400	2,073
Unusual items	**—**	7,773	429	1,525	8,802	5,293	—
Income before extraordinary items	**36,413**	23,804	20,951	22,941	62,559	20,107	2,073
Extraordinary items	**—**	—	749	—	(4,900)	(1,435)	—
Net income	**$ 36,413**	$ 23,804	$ 21,700	$ 22,941	$ 57,659	$ 18,672	$ 2,073

Earnings per common share					*(dollars)*		
after preferred share dividends							
Income before extraordinary item	**$ 0.62**	$ 0.21	$ 0.12	$ 0.47	$ 2.01	$ 0.95	$ 0.31
Extraordinary item	**—**	—	$ 0.02	—	$ (0.17)	$ (0.07)	—
Net income	**$ 0.62**	$ 0.21	$ 0.14	$ 0.47	$ 1.84	$ 0.88	$ 0.31

	1978	1977	1976	1975	1974	1973	1972
				(thousands of dollars)			
Cash flow from operations	**$ 133,740**	$ 90,346	$ 62,356	$ 38,730	$ 58,130	$ 35,187	$ 10,269
Other sources of funds	**854,321**	271,139	272,383	327,965	191,676	196,172	113,885
	$ 988,061	$ 361,485	$ 334,739	$ 366,695	$ 249,806	$ 231,359	$ 124,154

	1978	1977	1976	1975	1974	1973	1972
Investments	**$ 18,654**	$ 7,404	$ 47,621	$ 107,821	$ 1,989	$ 310,683	$ 28,889
Capital expenditures	**93,789**	301,137	291,488	192,658	74,268	30,814	8,125
Dividends on Class A preferred shares	**5,750**	5,750	5,750	5,750	4,750	—	—
Dividends on Class B preferred shares	**11,582**	11,582	11,546	2,842	—	—	—
Dividends to minority shareholders	**29,591**	4,335	4,322	3,206	—	—	—
Other uses of funds	**485,519**	51,314	41,693	25,669	16,320	20,420	5,212
Changes in working capital	**343,176**	(20,037)	(67,681)	28,749	152,479	(130,558)	81,928
	$ 988,061	$ 361,485	$ 334,739	$ 366,695	$ 249,806	$ 231,359	$ 124,154

	1978	1977	1976	1975	1974	1973	1972
Working capital	**$ 412,598**	$ 69,422	$ 89,459	$ 157,140	$ 128,891	$ (23,588)	$ 106,970
Working capital ratio	**1.8:1**	1.1:1	1.3:1	1.7:1	1.7:1	0.9:1	2.7:1
Fixed assets (net)	**1,067,481**	1,026,272	764,645	502,792	216,271	169,263	128,040
Equity investments	**413,429**	398,006	399,665	350,104	330,986	296,194	10,042
Long-term debt	**500,511**	687,322	471,850	253,703	137,439	122,803	48,195
Debt/equity ratio	**0.7:1**	1.0:1	0.7:1	0.4:1	0.3:1	0.4:1	0.2:1
Deferred taxes	**46,804**	37,233	28,427	21,492	9,744	7,166	4,153
Preferred equity	**244,780**	244,780	244,781	242,534	100,000	—	—
Common equity	**486,104**	468,583	463,668	460,823	446,948	344,374	200,702
Return on common equity	**4.0%**	1.4%	1.1%	3.8%	12.9%	6.3%	2.1%
Total assets	**2,537,838**	2,066,086	1,586,869	1,273,060	898,223	701,438	315,602
Dividend coverage (unconsolidated)	**1.67x**	1.17x	1.24x	0.87x	1.93x	—	—
Common shares outstanding at year-end	**30,712,170**	30,712,158	30,712,038	30,712,038	29,756,989	25,677,009	12,594,114

Share Data

CLASS A PREFERRED SHARES

Outstanding
10,000,000 shares of a par value of $10 each.

Distribution
Held by 18 institutional and industrial enterprises.

Dividend Dates
A dividend at the rate of 5¾% per annum is payable quarterly on the first of January, April, July and October.

Transfer Agent and Registrar
The Corporation at its Vancouver and Toronto Offices.

CLASS B PREFERRED SHARES

Outstanding
1,447,802 shares of a par value of $100 each.

Distribution

Location	Shareholders Number	Shareholders %	Shares Number	Shares %
British Columbia	2,296	15.4	120,122	8.3
Alberta	1,260	8.5	66,521	4.6
Saskatchewan	637	4.3	26,477	1.8
Manitoba	514	3.5	34,009	2.3
Ontario	7,975	53.7	951,831	65.8
Quebec	1,247	8.4	208,966	14.5
New Brunswick	351	2.4	17,351	1.2
Nova Scotia	405	2.7	15,878	1.1
Prince Edward Island	69	.5	2,521	.2
Newfoundland	53	.4	1,959	.1
Territories	20	.1	468	—
Outside Canada	63	.1	1,699	.1
Total:	**14,890**	**100%**	**1,447,802**	**100%**

It is estimated that shares held in the name of trust companies, brokers or other nominees represent holdings by an additional 2,800 beneficial shareholders.

Size of Holding

Number of Shares Owned	Number of Shareholders	%
1 - 49	10,902	73.4
50 - 99	1,992	13.4
100 - 199	1,322	9.0
200 - 299	355	2.0
300 - 399	88	.6
400 - 499	36	.3
Over 500	195	1.3
Total:	**14,890**	**100%**

Dividend Dates
A dividend of $2.00 per share is payable quarterly on the first of January, April, July and October.

Dividend Reinvestment Plan
To facilitate the acquisition of additional Class B preferred shares, the Corporation has instituted a dividend reinvestment plan, which has been favourably received with over 18% of all shareholders participating at year-end, 1978. At the shareholder's request, dividends are reinvested in Class B preferred shares. Shareholders benefit from lower service charges associated with the purchase of these additional shares. To their dividend funds participants may add cash contributions up to $1,000.00 per calendar quarter. For further information please contact:

National Trust Company, Limited — Stock Transfer Dept.
18 King Street East
Toronto, Ontario M5C 1E4

Bonus Common Shares and Conversion
Each Class B preferred share carries the right to receive two bonus common shares, the first of which is to be issued to the holder of record on October 1, 1980, and the second to the holder of record on October 1, 1985, subject to earlier record dates being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

Listings (Ticker symbol: CDC Pr B)
Vancouver Stock Exchange
Alberta Stock Exchange
The Winnipeg Stock Exchange
The Toronto Stock Exchange
Montreal Stock Exchange

Trading
During the year, 304,863 Class B preferred shares were traded on the stock exchanges. Prices fluctuated as follows on The Toronto Stock Exchange:

	High	Low	Close
1st quarter	106¾	103¾	106¾
2nd quarter	107⅞	104¾	105¼
3rd quarter	109	105	107¾
4th quarter	108	103	105
1977	106½	99¾	105½

Transfer Agent and Registrar
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

COMMON SHARES

Outstanding
30,712,170 shares without par value.

Distribution
Held by 31 registered shareholders.

Dividends
The Corporation has not paid dividends on its common shares since their issuance.

Transfer Agent and Registrar
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

Corporate Information

Board of Directors

Philippe de Gaspé Beaubien†
Chairman and
Chief Executive Officer
Télémédia Communications Ltée
Montreal, Quebec

Laurent Beaudoin*
Chairman, President and
Chief Executive Officer
Bombardier Inc.
Montreal, Quebec

Pierre Côté‡
Chairman
Laiterie Laval Limitée
Quebec City, Quebec

Louis R. Desmarais‡
Chairman
The Council for Canadian Unity
Montreal, Quebec

A. John Ellis‡ †
Chairman of the Board of the
Corporation
Vancouver, British Columbia

J.P. Gallagher‡
Chairman of the Board and
Chief Executive Officer
Dome Petroleum Limited
Calgary, Alberta

H. Anthony Hampson‡
President and
Chief Executive Officer
of the Corporation
Toronto, Ontario

Gordon F. Hughes
President and General Manager
Ocean Company Limited
Windsor, Nova Scotia

Douglas N. Kendall‡
Chairman
Enterprise Development Board
Toronto, Ontario

Murray B. Koffler†
Chairman of the Board
and Chief Executive Officer
Koffler Stores Limited
Willowdale, Ontario

For glossary of financial terms, open flap

Mrs. Mary Lamontagne†
Member
Medical Research Council of Canada
Quebec, Quebec

Sydney Maislin
Vice Chairman of the Board
and Chief Executive Officer
Maislin Industries Ltd.
Lasalle, Quebec

Hugh A. Martin
President
Western Construction and
Engineering Research Ltd.
Vancouver, British Columbia

W.C.Y. McGregor*
National President
Brotherhood of Railway, Airline
and Steamship Clerks
Montreal, Quebec

Maurice J. Moreau*
Vice President
Eldorado Nuclear Limited
Ottawa, Ontario

Frederick W. Sellers‡
Chairman
Spiroll Corporation Limited
Winnipeg, Manitoba

F.H. Sherman
President and Chief Executive Officer
Dominion Foundries and Steel,
Limited
Hamilton, Ontario

J.N. Turvey*
Chairman
Interprovincial Steel and
Pipe Corporation Ltd.
Vancouver, British Columbia

Dr. Catherine T. Wallace
Chairman
Maritime Provinces Higher Education
Commission
Fredericton, New Brunswick

Allan F. Waters*†
President and General Manager
CHUM Limited
Toronto, Ontario

G.F. Osbaldeston *(to Feb. 1, 1979)*
Marshall A. Cohen *(from Feb. 1, 1979)*
ex-officio
Deputy Minister of Industry,
Trade and Commerce
Ottawa, Ontario

T.K. Shoyama‡ *(to Feb. 1, 1979)*
Dr. William C. Hood‡ *(from Feb. 1, 1979)*
ex-officio
Deputy Minister of Finance
Ottawa, Ontario

Officers

A. John Ellis
Chairman of the Board

Louis R. Desmarais
Vice Chairman of the Board

H. Anthony Hampson
President and Chief
Executive Officer

Serge Gouin
Executive Vice President

John B. Hague
Executive Vice President

Peter K. Powell
Executive Vice President,
Finance and Administration

Claude R. Marchand
Senior Vice President
and Secretary

Jerry W. Bliley
Vice President

James D. Ellis
Vice President and Controller

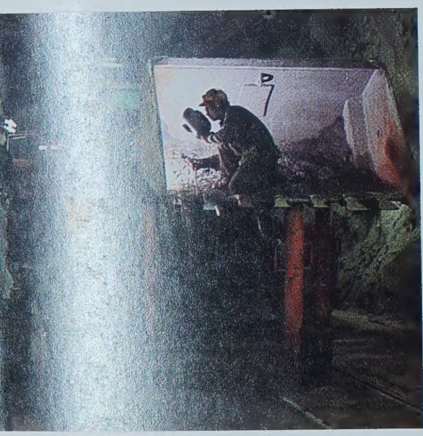
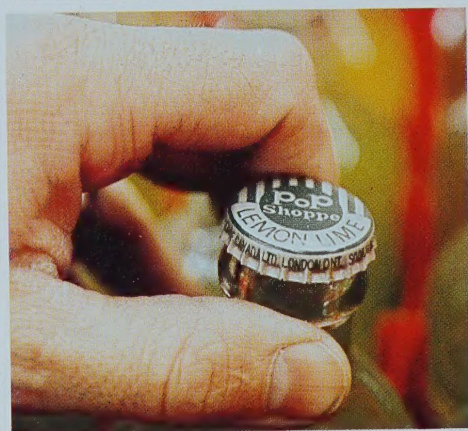
Nigel G.D. Gray
Vice President and General Counsel

Brian M. King
Vice President

James M. O'Reilly
Vice President and Treasurer

* Member of Audit Committee
† Member of Communications Committee
‡ Member of Executive Committee


FORCES
ARMÉES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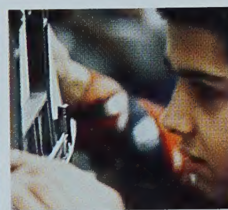


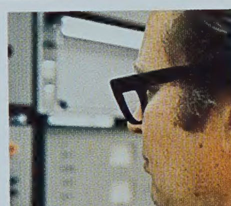

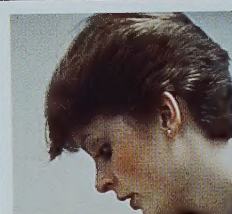
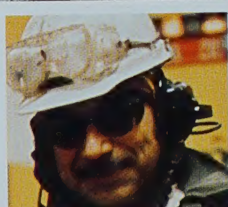


Glossary of Financial Terms

Amortization
Spreading a large expenditure proportionately over a fixed period of time.

Asset
Anything of value owned by a company or individual.

Balance Sheet
Statement of the financial worth of a business or organization which is divided into three parts — assets, liabilities and ownership (equity).

Capital
1. What is owned by a company or individual minus what is owed at a specific time.
2. Total investments of owners (shareholders) of a business at a given time, which may be calculated by subtracting from the total assets all the liabilities of those other than the owners.

Capital Asset
Assets owned or held by a business of either a tangible or intangible nature which are expected to be used or held over several fiscal periods (not including stock for sale).

Capital expenditure†
An expenditure to acquire or add to a capital asset; an expenditure yielding enduring benefits.

Cash flow†
The figure resulting from adding back to income items that do not affect working capital, such as depreciation and amortization. Used chiefly by financial analysts and not to be confused with "cash flow" as used in the cash flow statement.

Consolidation
A parent plus one or more subsidiary companies which present financial reports for the group as a whole, not as separate entities.

Corporation
Legal entity or corporate person with authority to operate under provincial or federal statutes, usually formed to make a profit. Owners are liable for the debts only up to the amount of their investment.

Current liability†
A liability whose regular and ordinary liquidation is expected to occur within one year or within the normal operating cycle where that is longer than a year. A liability otherwise classified as current but for which provision has been made for payment from other than current resources should be excluded.

Deferred income taxes†
The accumulated amounts by which income taxes charged in the accounts have been increased (accumulated tax allocation credit) or decreased (accumulated tax allocation debit) as a result of timing differences.

Depletion
Gradual using up or consumption of a natural resource, recorded in the accounts.

Depreciation
Gradual reduction of the cost of a fixed asset and gradual application of this cost to the expense of a business over the useful life of the asset.

Dividend
Distribution to shareholders of a portion of the profits of the company.

Dividend coverage ratio†
The ratio of the net income to dividends.

Earnings per share†
The portion of income for a period attributable to a share of issued capital of a corporation. The calculation of earnings per share is relevant only with respect to shares whose rights to participate in the earnings have no upper limit.

Equity
1. A right or claim to the assets of a company. Both the owners and creditors have equity in a business. 2. Amount that a business is worth beyond what it owes.

Expenditure
1. Spending. 2. Incurring a liability.

Fixed Assets
Property or equipment of a tangible nature owned by a business for use in its operations (not for sale), which is expected to have a useful life of several fiscal periods.

Income
Difference between total revenue and total expense of a business for a given period.

Inventory
Detailed list of items and their values owned at a specific point in time.

Investment
Funds committed to something tangible or intangible in order to receive a return either in income or use.

Liability
1. An amount owed to another, not necessarily due to be paid immediately. 2. An obligation to remit money or services at a future date.

Long-term liability†
A liability which, in the ordinary course of business, will not be liquidated within one year or within the normal operating cycle where that is longer than a year.

Minority interest†
1. The equity of the shareholders who do not hold the controlling interest in a controlled company. 2. In consolidated financial statements, the equity in subsidiaries that is applicable to shares that are not owned by the parent company or by a consolidated subsidiary company.

Profit
Total revenue less total expenditures for a period of time calculated in accordance with generally accepted accounting principles.

Ratio
Relative size, expressed as the number of times one quantity is contained in another. For example, CDC in 1978 had current assets of $926,547,000 and current liabilities of $513,949,000. Therefore, the ratio of current assets to current liabilities was $926,547,000 ÷ $513,949,000 = 1.80:1.

Retained Earnings
Portion of a company's aggregate income since incorporation which remains invested in the operation after distribution of dividends to shareholders.

Revenue
Inflow of cash or receivables from customers or clients in return for goods, services, or interest on investments.

Subsidiary
Company which is controlled by another company usually through its ownership of the majority of shares.

Working capital†
The excess of current assets over current liabilities.

Write-Off
(verb) To transfer an item which was considered an asset to an expense account; for example, to transfer an uncollectible account receivable to bad debts expense.
(noun) The item or amount reduced or cancelled.

LITHO'D IN CANADA AGENCY PRESS LIMITED